

TOWN OF MONTAGUE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	19
Proprietary Funds:	
Statement of Net Position	20
Statement of Revenues, Expenses, and Changes in Fund Net Position	21
Statement of Cash Flows	22
Fiduciary Funds:	
Statement of Fiduciary Net Position	23
Statement of Changes in Fiduciary Net Position	24
Notes to Financial Statements	25
REQUIRED SUPPLEMENTARY INFORMATION:	
Pension:	
Schedule of Proportionate Share of the Net Pension Liability (GASB 68)	62
Schedule of Pension Contributions (GASB 68)	63
OPEB:	
Schedule of Changes in Net OPEB Liability (GASB 74 and 75)	64
Schedules of Net OPEB Liability, Contributions and Investment Returns (GASB 74 and 75)	65

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, 2018, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2017), 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, 2018, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2017) 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

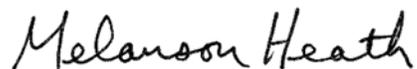
Required Supplementary Information

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 62 to 65 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 December 6, 2018 on our consideration of the Town'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's 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.

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

December 6, 2018

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, 2018.

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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include sewer activities.

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 \$9,209,493 (i.e., net position), a change of \$156,044 in comparison to the restated prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$5,594,296, a change of \$914,364 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,763,981, a change of \$707,797 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.

NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 7,264,859	\$ 6,253,562	\$ 974,017	\$ 1,026,979	\$ 8,238,876	\$ 7,280,541
Capital assets	<u>21,169,337</u>	<u>21,056,533</u>	<u>13,534,760</u>	<u>13,945,417</u>	<u>34,704,097</u>	<u>35,001,950</u>
Total assets	28,434,196	27,310,095	14,508,777	14,972,396	42,942,973	42,282,491
Deferred outflows of resources	1,704,541	1,571,114	177,384	159,188	1,881,925	1,730,302
Current liabilities	1,261,129	1,108,602	4,218,636	3,713,726	5,479,765	4,822,328
Non-current liabilities	<u>22,943,739</u>	<u>15,814,434</u>	<u>5,894,178</u>	<u>5,349,208</u>	<u>28,837,917</u>	<u>21,163,642</u>
Total liabilities	24,204,868	16,923,036	10,112,814	9,062,934	34,317,682	25,985,970
Deferred inflows of resources	1,175,607	455,418	122,116	46,144	1,297,723	501,562
Net position:						
Net investment in capital assets	16,004,360	15,580,155	5,907,146	6,275,307	21,911,506	21,855,462
Restricted	946,245	770,450	-	-	946,245	770,450
Unrestricted	<u>(12,192,343)</u>	<u>(4,847,850)</u>	<u>(1,455,915)</u>	<u>(252,801)</u>	<u>(13,648,258)</u>	<u>(5,100,651)</u>
Total net position	\$ <u>4,758,262</u>	\$ <u>11,502,755</u>	\$ <u>4,451,231</u>	\$ <u>6,022,506</u>	\$ <u>9,209,493</u>	\$ <u>17,525,261</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 \$9,209,493, a change of \$156,044 in comparison with the reclassified prior year.

The largest portion of net position, \$21,911,506, 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, \$946,245, represents resources that are subject to external restrictions on how they may be used. The remaining balances of unrestricted net position are deficits of \$(12,192,343) (governmental) and \$(1,455,915) (business-type).

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,032,672	\$ 961,400	\$ 1,659,028	\$ 1,966,057	\$ 2,691,700	\$ 2,927,457
Operating grants and contributions	1,390,227	1,022,744	-	-	1,390,227	1,022,744
Capital grants and contributions	941,432	2,192,883	59,926	42,803	1,001,358	2,235,686
General revenues:						
Property taxes	17,171,678	15,827,508	-	-	17,171,678	15,827,508
Excises	824,925	775,898	-	-	824,925	775,898
Penalties, interest and other taxes	180,566	133,060	-	-	180,566	133,060
Grants and contributions not restricted to specific programs	1,579,147	1,525,546	-	-	1,579,147	1,525,546
Investment income	32,131	21,428	107	125	32,238	21,553
Other	542,741	116,719	-	-	542,741	116,719
Total revenues	<u>23,695,519</u>	<u>22,577,186</u>	<u>1,719,061</u>	<u>2,008,985</u>	<u>25,414,580</u>	<u>24,586,171</u>
Expenses:						
General government	2,916,594	2,777,227	-	-	2,916,594	2,777,227
Public safety	3,565,039	3,561,118	-	-	3,565,039	3,561,118
Education	10,210,464	9,597,613	-	-	10,210,464	9,597,613
Public works	3,785,823	3,759,675	-	-	3,785,823	3,759,675
Health and human services	380,446	405,122	-	-	380,446	405,122
Culture and recreation	1,119,687	1,024,919	-	-	1,119,687	1,024,919
Interest on long-term debt	213,957	229,214	-	-	213,957	229,214
Intergovernmental	200,158	190,635	-	-	200,158	190,635
Sewer operations	-	-	2,866,368	2,345,658	2,866,368	2,345,658
Total expenses	<u>22,392,168</u>	<u>21,545,523</u>	<u>2,866,368</u>	<u>2,345,658</u>	<u>25,258,536</u>	<u>23,891,181</u>
Change in net position before transfers	1,303,351	1,031,663	(1,147,307)	(336,673)	156,044	694,990
Transfers in (out)	<u>(330,620)</u>	<u>(221,881)</u>	<u>330,620</u>	<u>221,881</u>	<u>-</u>	<u>-</u>
Change in net position	972,731	809,782	(816,687)	(114,792)	156,044	694,990
Net position - beginning of year, as restated	<u>3,785,531</u>	<u>10,692,973</u>	<u>5,267,918</u>	<u>6,137,298</u>	<u>9,053,449</u>	<u>16,830,271</u>
Net position - end of year	<u>\$ 4,758,262</u>	<u>\$ 11,502,755</u>	<u>\$ 4,451,231</u>	<u>\$ 6,022,506</u>	<u>\$ 9,209,493</u>	<u>\$ 17,525,261</u>

Fiscal year 2017 amounts reported above were not restated as the Town applied GASB 75 prospectively.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$972,731. Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 739,490
Major fund - Airport expenditures in excess of revenues and transfers in	(6,550)
Non-major fund revenues and transfers in in excess of expenditures and transfers out	181,424
Depreciation expense in excess of principal debt service	(923,044)
Capital assets purchased from taxation and grants	1,459,027
Change in net pension liability, net of deferrals	64,966
Change in net OPEB liability, net of deferrals	(412,025)
Other timing differences	<u>(130,557)</u>
Total	<u>\$ 972,731</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(816,687). Key elements of this change are as follows:

Sewer fund expenditures in excess of revenues	\$ (1,147,307)
Transfers from general fund	<u>330,620</u>
Total	<u>\$ (816,687)</u>

D. FINANCIAL ANALYSIS OF 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 \$5,594,296, a change of \$914,364 in comparison with the prior year. Key elements of this change are as follows:

General fund operations, as discussed further below	\$ 739,490
Major fund - Airport expenditures in excess of revenues and transfers in	(6,550)
Non-major fund revenues and transfers in in excess of expenditures and transfers out	<u>181,424</u>
Total	<u>\$ 914,364</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 \$3,763,981, while total fund

balance was \$4,812,291. 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>2018</u>	<u>2017</u>	<u>Change</u>	<u>% of Total 2018 General Fund Expenditures</u>
Unassigned fund balance	\$ 3,763,981	\$ 3,056,184	\$ 707,797	19.3%
Total fund balance	\$ 4,812,291	\$ 4,072,801	\$ 739,490	24.7%

The total fund balance of the general fund changed by \$739,490 during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:		
Excess of tax collections compared to budget		\$ 499,284
State and local revenues over budget		376,350
Budgetary appropriations unspent by departments		280,691
Use of free cash (fund balance) as a funding sources for non-recurring items		(571,101)
Difference between current year encumbrances to be spent in the subsequent year and prior year encumbrances spent in the current year		29,776
Change in Stabilization funds		<u>124,490</u>
Total		<u>\$ 739,490</u>

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

	<u>2018</u>	<u>2017</u>	<u>Change</u>
General stabilization	\$ 846,592	\$ 781,019	\$ 65,573
Capital stabilization	60,081	24,985	35,096
Franklin County Technical School stabilization	99,477	75,656	23,821
Gill-Montague Regional School District stabilization	<u>44</u>	<u>44</u>	<u>-</u>
Total Stabilization funds	<u>\$ 1,006,194</u>	<u>\$ 881,704</u>	<u>\$ 124,490</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 \$(1,455,915), a change of \$(448,526) in comparison with the restated 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 \$101,926. Reasons for these amendments include:

- \$49,000 Shea roof repairs.
- \$38,920 Increase in police department budget.
- \$14,006 Other budget increases.

All this increase was funded through the use of free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$34,704,097 (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	\$ (1,346,223)
Depreciation expense – sewer fund	(464,663)
Purchase of sewer vehicle	46,446
Purchase of police vehicle	42,044
Purchase of Industrial Park land	395,400
Purchase of public works vehicles and equipment	189,743
Purchase of library books	50,317
Purchase of airport equipment	44,147
Foreclosed properties	237,500
Construction in progress – airport runway replacement	345,492
Construction in progress – Sheffield School projects	79,025
Construction in progress – various projects	75,359
Construction in progress – pump station repairs and sewer line replacement	<u>7,560</u>
Total	<u>\$ (297,853)</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$9,062,492, 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, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 5,699,282	\$ 427,080	\$ 6,126,362
Investments	167,874	-	167,874
Receivables, net of allowance for uncollectible:			
Property taxes	480,868	-	480,868
Excises	115,505	-	115,505
User fees	-	436,937	436,937
Departmental and other	84,323	-	84,323
Intergovernmental	401,210	110,000	511,210
Other assets	107,135	-	107,135
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax liens	208,662	-	208,662
Capital assets:			
Land and construction in progress	4,351,094	215,661	4,566,755
Other capital assets, net of accumulated depreciation	16,818,243	13,319,099	30,137,342
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	1,659,541	172,384	1,831,925
Related to OPEB	45,000	5,000	50,000
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	30,138,737	14,686,161	44,824,898
LIABILITIES			
Current:			
Warrants payable	319,336	128,465	447,801
Accounts payable	-	217,525	217,525
Accrued payroll and withholdings	115,997	6,817	122,814
Accrued interest payable	-	56,235	56,235
Notes payable	173,345	3,611,109	3,784,454
Intergovernmental payable	109,234	-	109,234
Other current liabilities	83,554	-	83,554
Current portion of long-term liabilities:			
Notes payable	20,000	-	20,000
Bonds payable	409,525	198,485	608,010
Other	30,138	-	30,138
Noncurrent:			
Notes payable, net of current portion	40,000	-	40,000
Bonds payable, net of current portion	4,525,355	3,929,127	8,454,482
Net pension liability	4,492,099	466,615	4,958,714
Net OPEB liability	13,382,655	1,486,962	14,869,617
Other, net of current portion	503,630	11,474	515,104
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	1,175,607	122,116	1,297,723
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	25,380,475	10,234,930	35,615,405
NET POSITION			
Net investment in capital assets	16,004,360	5,907,146	21,911,506
Restricted for:			
Grants and other statutory restrictions	848,647	-	848,647
Permanent funds:			
Nonexpendable	65,688	-	65,688
Expendable	31,910	-	31,910
Unrestricted	(12,192,343)	(1,455,915)	(13,648,258)
TOTAL NET POSITION	\$ 4,758,262	\$ 4,451,231	\$ 9,209,493

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

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	<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>
Governmental Activities:							
General government	\$ 2,916,594	\$ 164,644	\$ 980,292	\$ 386,350	\$ (1,385,308)	\$ -	\$ (1,385,308)
Public safety	3,565,039	400,484	49,797	-	(3,114,758)	-	(3,114,758)
Education	10,210,464	-	46,872	-	(10,163,592)	-	(10,163,592)
Public works	3,785,823	253,105	12,603	555,082	(2,965,033)	-	(2,965,033)
Health and human services	380,446	26,764	128,409	-	(225,273)	-	(225,273)
Culture and recreation	1,119,687	187,675	172,254	-	(759,758)	-	(759,758)
Interest	213,957	-	-	-	(213,957)	-	(213,957)
Intergovernmental	200,158	-	-	-	(200,158)	-	(200,158)
Total Governmental Activities	22,392,168	1,032,672	1,390,227	941,432	(19,027,837)	-	(19,027,837)
Business-Type Activities:							
Sewer operations	2,866,368	1,659,028	-	59,926	-	(1,147,414)	(1,147,414)
Total Business-Type Activities	2,866,368	1,659,028	-	59,926	-	(1,147,414)	(1,147,414)
Total	\$ 25,258,536	\$ 2,691,700	\$ 1,390,227	\$ 1,001,358	(19,027,837)	(1,147,414)	(20,175,251)
General Revenues and Transfers:							
Property taxes					17,171,678	-	17,171,678
Excises					824,925	-	824,925
Penalties, interest and other taxes					180,566	-	180,566
Grants and contributions not restricted to specific programs					1,579,147	-	1,579,147
Investment income					32,131	107	32,238
Miscellaneous					542,741	-	542,741
Transfers, net					(330,620)	330,620	-
Total general revenues and transfers					20,000,568	330,727	20,331,295
Change in Net Position					972,731	(816,687)	156,044
Net Position:							
Beginning of year, as restated					3,785,531	5,267,918	9,053,449
End of year					\$ 4,758,262	\$ 4,451,231	\$ 9,209,493

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

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	<u>Airport Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 5,038,109	\$ 12,235	\$ 648,938	\$ 5,699,282
Investments	60,082	-	107,792	167,874
Receivables:				
Property taxes	765,319	-	-	765,319
Excises	122,516	-	-	122,516
Departmental and other	63,830	-	20,493	84,323
Intergovernmental	129,149	44,339	227,722	401,210
Other assets	107,135	-	-	107,135
TOTAL ASSETS	<u>\$ 6,286,140</u>	<u>\$ 56,574</u>	<u>\$ 1,004,945</u>	<u>\$ 7,347,659</u>
LIABILITIES				
Warrants payable	\$ 229,662	\$ 46,602	\$ 43,072	\$ 319,336
Accrued payroll and withholdings	109,085	380	6,532	115,997
Notes payable	-	-	173,345	173,345
Intergovernmental payable	109,234	-	-	109,234
Other liabilities	73,971	-	9,583	83,554
TOTAL LIABILITIES	521,952	46,982	232,532	801,466
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	951,897	-	-	951,897
FUND BALANCES				
Nonspendable	-	-	65,688	65,688
Restricted	-	9,592	819,988	829,580
Committed	704,310	-	61,737	766,047
Assigned	344,000	-	-	344,000
Unassigned	3,763,981	-	(175,000)	3,588,981
TOTAL FUND BALANCES	<u>4,812,291</u>	<u>9,592</u>	<u>772,413</u>	<u>5,594,296</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 6,286,140</u>	<u>\$ 56,574</u>	<u>\$ 1,004,945</u>	<u>\$ 7,347,659</u>

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, 2018

Total Governmental Fund Balances	\$ 5,594,296
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	21,169,337
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection.	869,097
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, net pension liability, and net OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds.	(22,340,700)
<ul style="list-style-type: none">• Other	<u>(533,768)</u>
Net Position of Governmental Activities	<u>\$ 4,758,262</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, 2018

	<u>General</u>	<u>Airport Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 16,950,977	\$ -	\$ -	\$ 16,950,977
Excises	818,351	-	-	818,351
Penalties, interest and other taxes	180,566	-	-	180,566
Charges for services	363,855	25,062	405,523	794,440
Intergovernmental	1,796,319	386,350	1,750,325	3,932,994
Licenses and permits	217,474	-	-	217,474
Fines and forfeitures	19,954	-	-	19,954
Investment income	26,132	71	5,928	32,131
Miscellaneous	89,785	-	57,556	147,341
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	20,463,413	411,483	2,219,332	23,094,228
Expenditures:				
Current:				
General government	1,230,964	-	926,576	2,157,540
Public safety	2,034,184	-	209,299	2,243,483
Education	10,214,670	-	-	10,214,670
Public works	2,220,754	448,450	554,473	3,223,677
Health and human services	261,437	-	30,752	292,189
Culture and recreation	542,238	-	281,837	824,075
Employee benefits	2,153,493	-	-	2,153,493
Debt service	606,611	-	30,525	637,136
Intergovernmental	200,158	-	-	200,158
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	19,464,509	448,450	2,033,462	21,946,421
Excess (deficiency) of revenues over expenditures	998,904	(36,967)	185,870	1,147,807
Other Financing Sources (Uses):				
Issuance of capital lease	97,177	-	-	97,177
Transfers in	8,125	30,417	3,679	42,221
Transfers (out)	(364,716)	-	(8,125)	(372,841)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(259,414)	30,417	(4,446)	(233,443)
Change in fund balance	739,490	(6,550)	181,424	914,364
Fund Balance, at Beginning of Year	4,072,801	16,142	590,989	4,679,932
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, at End of Year	\$ 4,812,291	\$ 9,592	\$ 772,413	\$ 5,594,296

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, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ 914,364																		
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td style="padding-left: 40px;">Capital outlay</td> <td style="text-align: right;">1,459,027</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(1,346,223)</td> </tr> </table> 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 style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">423,179</td> </tr> <tr> <td style="padding-left: 40px;">Issuance of capital lease</td> <td style="text-align: right;">(97,177)</td> </tr> <tr> <td style="padding-left: 40px;">Repayments of capital lease</td> <td style="text-align: right;">21,320</td> </tr> </table> 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;">(31,609)</td> </tr> </table> Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: <table> <tr> <td style="padding-left: 40px;">Net pension liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">64,966</td> </tr> <tr> <td style="padding-left: 40px;">Net OPEB liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">(412,025)</td> </tr> </table> Other differences <table> <tr> <td></td> <td style="text-align: right;"><u>(23,091)</u></td> </tr> </table> 		Capital outlay	1,459,027	Depreciation	(1,346,223)	Repayments of debt	423,179	Issuance of capital lease	(97,177)	Repayments of capital lease	21,320		(31,609)	Net pension liability and related deferred outflows and inflows of resources	64,966	Net OPEB liability and related deferred outflows and inflows of resources	(412,025)		<u>(23,091)</u>
Capital outlay	1,459,027																		
Depreciation	(1,346,223)																		
Repayments of debt	423,179																		
Issuance of capital lease	(97,177)																		
Repayments of capital lease	21,320																		
	(31,609)																		
Net pension liability and related deferred outflows and inflows of resources	64,966																		
Net OPEB liability and related deferred outflows and inflows of resources	(412,025)																		
	<u>(23,091)</u>																		
Change in Net Position of Governmental Activities	\$ <u>972,731</u>																		

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers In:				
Property taxes	\$ 16,451,693	\$ 16,451,693	\$ 16,451,693	\$ -
Excises	715,000	715,000	818,351	103,351
Penalties, interest and other taxes	103,000	103,000	180,566	77,566
Charges for services	273,000	273,000	363,855	90,855
Intergovernmental	1,798,823	1,798,823	1,796,319	(2,504)
Licenses and permits	145,000	145,000	217,474	72,474
Fines and forfeitures	16,000	16,000	19,954	3,954
Investment income	5,000	5,000	12,759	7,759
Miscellaneous	75,015	75,015	89,785	14,770
Transfers in	-	-	8,125	8,125
Total Revenues and Transfers In	19,582,531	19,582,531	19,958,881	376,350
Expenditures and Transfers Out:				
General government	1,304,683	1,328,329	1,222,936	105,393
Public safety	2,022,146	2,085,610	2,049,185	36,425
Education	10,198,900	10,198,900	10,198,131	769
Public works	2,201,431	2,201,431	2,095,684	105,747
Health and human services	318,922	273,922	259,937	13,985
Culture and recreation	611,221	611,221	610,973	248
Employee benefits	2,227,243	2,163,309	2,153,493	9,816
Debt service	614,919	614,919	606,611	8,308
Intergovernmental	200,158	200,158	200,158	-
Transfers out	352,083	475,833	475,833	-
Total Expenditures and Transfers Out	20,051,706	20,153,632	19,872,941	280,691
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(469,175)	(571,101)	85,940	657,041
Other Financing Sources/Uses:				
Use of free cash:				
Operating budget	224,085	277,011	-	(277,011)
Capital budget	245,090	294,090	-	(294,090)
Total Other Financing Sources/Uses	469,175	571,101	-	(571,101)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 85,940	\$ 85,940

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

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-Type Activities
	<u>Sewer Fund</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 427,080
User fees, net of allowance for uncollectibles	436,937
Intergovernmental receivables	<u>110,000</u>
Total current assets	974,017
Noncurrent:	
Capital assets:	
Land and construction in progress	215,661
Other capital assets, net of accumulated depreciation	<u>13,319,099</u>
Total noncurrent assets	13,534,760
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	172,384
Related to OPEB	<u>5,000</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	14,686,161
LIABILITIES	
Current:	
Warrants payable	128,465
Accounts payable	217,525
Accrued payroll	6,817
Accrued interest payable	56,235
Notes payable	3,611,109
Current portion of long-term liabilities:	
Bonds payable	<u>198,485</u>
Total current liabilities	4,218,636
Noncurrent:	
Bonds payable, net of current portion	3,929,127
Net pension liability	466,615
Net OPEB liability	1,486,962
Other, net of current portion	<u>11,474</u>
Total noncurrent liabilities	5,894,178
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	<u>122,116</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	10,234,930
NET POSITION	
Net investment in capital assets	5,907,146
Unrestricted	<u>(1,455,915)</u>
TOTAL NET POSITION	\$ <u>4,451,231</u>

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, 2018

	Business-Type Activities
	<u>Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ <u>1,659,028</u>
Total Operating Revenues	1,659,028
Operating Expenses:	
Salaries and benefits	702,408
Other operating expenses	1,523,482
Depreciation	<u>464,663</u>
Total Operating Expenses	<u>2,690,553</u>
Operating (Loss)	(1,031,525)
Nonoperating Revenues (Expenses):	
Intergovernmental revenue	59,926
Investment income	107
Interest expense	<u>(175,815)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(115,782)</u>
(Loss) Before Transfers	(1,147,307)
Transfers:	
Transfers in	<u>330,620</u>
Change in Net Position	(816,687)
Net Position at Beginning of Year, as restated	<u>5,267,918</u>
Net Position at End of Year	<u>\$ <u>4,451,231</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, 2018

	<u>Business-Type Activities Sewer Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 1,494,021
Payments to vendors and employees	<u>(1,929,132)</u>
Net Cash (Used For) Operating Activities	(435,111)
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers in	<u>330,620</u>
Net Cash Provided By Noncapital Financing Activities	330,620
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(54,006)
Issuance of short-term debt	3,611,109
Repayments of short-term debt	(3,347,645)
Principal payments on bonds and notes	(201,841)
Grant income	59,926
Interest payments	<u>(177,426)</u>
Net Cash (Used For) Capital and Related Financing Activities	(109,883)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>106</u>
Net Cash Provided By Investing Activities	<u>106</u>
Net Change in Cash and Short-Term Investments	(214,268)
Cash and Short Term Investments, Beginning of Year	<u>641,348</u>
Cash and Short Term Investments, End of Year	<u><u>\$ 427,080</u></u>
<u>Reconciliation of Operating (Loss) to Net Cash (Used For) Operating Activities:</u>	
Operating (loss)	\$ (1,031,525)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation	464,663
Changes in assets, liabilities, and deferred outflows/inflows:	
User fees	(70,560)
Other assets	(90,746)
Deferred outflows - related to OPEB	(5,000)
Deferred outflows - related to pensions	(13,196)
Warrants and accounts payable	243,298
Accrued liabilities	3,116
Other liabilities	(2,789)
Net OPEB liability, net of deferrals	50,781
Net pension liability, net of deferrals	(59,125)
Deferred inflows - related to pensions	<u>75,972</u>
Net Cash (Used For) Operating Activities	<u><u>\$ (435,111)</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, 2018

	Pension and OPEB Trust Funds	Private Purpose Trust Funds
ASSETS		
Cash and short-term investments	\$ 488,261	\$ 123,526
Investments in Pension Reserves		
Investment Trust (PRIT)	42,750,663	-
Accounts receivable	14,386	-
Total Assets	<u>43,253,310</u>	<u>123,526</u>
NET POSITION		
Net position restricted for:		
Pensions	42,840,372	-
OPEB	412,938	-
Other	-	123,526
Total Net Position	<u>\$ 43,253,310</u>	<u>\$ 123,526</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, 2018

	<u>Pension and OPEB Trust Funds</u>	<u>Private Purpose Trust Funds</u>
Additions:		
Contributions:		
Employers	\$ 2,315,505	\$ -
Plan members	904,179	-
Other systems and Commonwealth of Massachusetts	96,969	-
Other	<u>6,423</u>	<u>-</u>
Total contributions	3,323,076	-
Investment Income:		
Interest and dividends	35,568	2,830
Appreciation in fair value of investments	6,417,430	-
Less: management fees	<u>(206,076)</u>	<u>-</u>
Net investment income	<u>6,246,922</u>	<u>2,830</u>
Total additions	9,569,998	2,830
Deductions:		
Benefit payments to plan members, beneficiaries and other systems	3,348,893	-
Reimbursements to other systems	62,340	-
Refunds to plan members	82,548	-
Administrative expenses	98,236	-
Scholarships awarded	<u>-</u>	<u>2,750</u>
Total deductions	<u>3,592,017</u>	<u>2,750</u>
Net increase	5,977,981	80
Net position restricted for pensions and other purposes:		
Beginning of year	<u>37,275,329</u>	<u>123,446</u>
End of year	<u>\$ 43,253,310</u>	<u>\$ 123,526</u>

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 2018, 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, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension 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 *pension and OPEB trust funds* accounts for the activities of the Montague Contributory and OPEB Retirement System, which accumulates resources for pension benefit payments to qualified employees, as well as the Town's other post-employment benefits trust fund which is used to accumulate resources for health and life insurance benefits for retired employees.

- 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.

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.

Investments for the trust funds consist of certificates of deposit, corporate bonds, equity and federal, and investments in the State Pool. Investments are carried at fair value, except certificate of deposits, which are reported at cost.

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 2018 tax levy reflected an excess capacity of \$75,221.

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)	\$ 20,463,413	\$ 19,464,509
Other financing sources/uses (GAAP basis)	<u>105,302</u>	<u>364,716</u>
Subtotal (GAAP basis)	20,568,715	19,829,225
Remove the effect of adding Town's stabilization funds per GASB 54:		
Reverse the adjustment eliminating interfund transfers	-	111,117
Remove stabilization funds investment income	(13,373)	-
Adjust tax revenue to accrual basis	(499,284)	-
Reverse the effect of non-budgeted capital lease issuance	(97,177)	(97,177)
Reverse beginning of year appropriation carry-forwards from expenditures	-	(514,932)
Add end of year appropriation carryforwards to expenditures	<u>-</u>	<u>544,708</u>
Budgetary basis	<u>\$ 19,958,881</u>	<u>\$ 19,872,941</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2018:

Capital Project Funds:

Soil Stabilization	\$ (78,000)
Unity Park	<u>(97,000)</u>
	<u>\$ (175,000)</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, 2018, \$111,831 of the Town’s bank balance of \$7,030,895 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2017, none of the Contributory Retirement System’s bank balance of \$510,719 was exposed to custodial credit risk as uninsured and/or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town’s investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
			<u>Aaa</u>	<u>Baa1</u>	<u>Baa2</u>
Certificate of deposits	\$ 80,149	\$ 80,149	\$ -	\$ -	\$ -
Corporate bonds	24,626	-	-	21,644	2,982
Equity securities	24,499	24,499	-	-	-
Federal securities	<u>38,600</u>	<u>-</u>	<u>38,600</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 167,874</u>	<u>\$ 104,648</u>	<u>\$ 38,600</u>	<u>\$ 21,644</u>	<u>\$ 2,982</u>

The Town’s other post-employment (OPEB) trust fund 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.

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 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 the 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 Town and System do not have policies for custodial credit risk.

With the exception of the Town's investments in PRIT, all of the Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

All of the 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 Town and System do 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 investments to market interest rate fluctuations are as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	<u>Investment Maturities (in Years)</u>	
			<u>Less than 1</u>	<u>1-5</u>
Certificate of deposits	\$ 80,149	\$ -	\$ -	\$ 80,149
Corporate bonds	24,626	-	-	24,626
Equity securities	24,499	24,499	-	-
Federal securities	38,600	-	14,887	23,713
Total	<u>\$ 167,874</u>	<u>\$ 24,499</u>	<u>\$ 14,887</u>	<u>\$ 128,488</u>

Information about the sensitivity of the fair values of the Town's OPEB trust fund and the System's investments to market interest rate fluctuations is not applicable as all 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 Town 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. Certificates of deposit are measured at cost and are therefore exempt from fair value disclosure.

The Town has the following fair value measurements as of June 30, 2018:

<u>Description</u>	<u>Value</u>	In active market for identical assets (<u>Level 1</u>)	Significant observable inputs (<u>Level 2</u>)	Significant unobservable inputs (<u>Level 3</u>)
Investments by fair value level:				
Debt securities				
Corporate bonds	\$ 24,626	\$ -	\$ 24,626	\$ -
Federal securities	38,600	-	38,600	-
Equity securities	24,499	24,499	-	-

Investments measured at the net asset value (NAV):	
External investment pool	<u>412,938</u>
Total	<u>\$ 500,663</u>

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	Redemption Frequency (If currently eligible)	Redemption Notice Period
External investment pool	\$ 412,938	\$ -	Monthly	30 days

The System has the following fair value measurements as of December 31, 2017 (in thousands):

<u>Description</u>	<u>Value</u>
Investments measured at the net asset value (NAV):	
External investment pool	<u>\$ 42,338</u>

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	Redemption Frequency (If currently eligible)	Redemption Notice Period
External investment pool	\$ 42,338	\$ -	Monthly	30 days

5. **Property 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.

Property taxes and excise receivables at June 30, 2018 consists of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Net Amount (accrual basis)
Real estate taxes	\$ 494,666	\$ (22,494)	\$ 472,172
Personal property taxes	9,825	(1,129)	8,696
Tax liens	<u>260,828</u>	<u>(52,166)</u>	<u>208,662</u>
Total property taxes	765,319	(75,789)	689,530
Less current portion:			<u>(480,868)</u>
Noncurrent taxes receivable			<u>\$ 208,662</u>
Motor vehicle excise	121,655	(7,011)	\$ 114,644
Boat excise	<u>861</u>	<u>-</u>	<u>861</u>
Total excises	<u>\$ 122,516</u>	<u>\$ (7,011)</u>	<u>\$ 115,505</u>

6. User Fee Receivables

Receivables for user charges and betterments at June 30, 2018 consist of the following:

	Gross Amount	Allowance for Doubtful Accounts	Net Amount
<u>Receivables:</u>			
Sewer	\$ <u>535,849</u>	\$ <u>(98,912)</u>	\$ <u>436,937</u>
Total	<u>\$ 535,849</u>	<u>\$ (98,912)</u>	<u>\$ 436,937</u>

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018.

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, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 24,610,161	\$ -	\$ -	\$ 122,111	\$ 24,732,272
Machinery, equipment, vehicles and furnishings	3,599,806	326,251	(112,040)	-	3,814,017
Infrastructure	751,443	-	-	-	751,443
Total capital assets, being depreciated	28,961,410	326,251	(112,040)	122,111	29,297,732
Less accumulated depreciation for:					
Buildings and improvements	(8,545,405)	(1,021,882)	-	-	(9,567,287)
Machinery, equipment, vehicles and furnishings	(2,418,669)	(294,269)	112,040	-	(2,600,898)
Infrastructure	(281,232)	(30,072)	-	-	(311,304)
Total accumulated depreciation	(11,245,306)	(1,346,223)	112,040	-	(12,479,489)
Total capital assets, being depreciated, net	17,716,104	(1,019,972)	-	122,111	16,818,243
Capital assets, not being depreciated:					
Land	880,189	632,900	-	-	1,513,089
Construction in progress	2,460,240	499,876	-	(122,111)	2,838,005
Total capital assets, not being depreciated	3,340,429	1,132,776	-	(122,111)	4,351,094
Governmental activities capital assets, net	\$ <u>21,056,533</u>	\$ <u>112,804</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>21,169,337</u>

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Business-Type Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 6,608,342	\$ -	\$ -	\$ -	\$ 6,608,342
Machinery, equipment, vehicles and furnishings	33,019	46,446	-	-	79,465
Infrastructure	<u>15,030,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,030,075</u>
Total capital assets, being depreciated	21,671,436	46,446	-	-	21,717,882
Less accumulated depreciation for:					
Buildings and improvements	(4,815,686)	(159,417)	-	-	(4,975,103)
Machinery, equipment, vehicles and furnishings	(33,019)	(4,645)	-	-	(37,664)
Infrastructure	<u>(3,085,415)</u>	<u>(300,601)</u>	<u>-</u>	<u>-</u>	<u>(3,386,016)</u>
Total accumulated depreciation	<u>(7,934,120)</u>	<u>(464,663)</u>	<u>-</u>	<u>-</u>	<u>(8,398,783)</u>
Total capital assets, being depreciated, net	13,737,316	(418,217)	-	-	13,319,099
Capital assets, not being depreciated:					
Land	145,835	-	-	-	145,835
Construction in progress	<u>62,266</u>	<u>7,560</u>	<u>-</u>	<u>-</u>	<u>69,826</u>
Total capital assets, not being depreciated	<u>208,101</u>	<u>7,560</u>	<u>-</u>	<u>-</u>	<u>215,661</u>
Business-type activities capital assets, net	<u>\$ 13,945,417</u>	<u>\$ (410,657)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,534,760</u>

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

Governmental Activities:	
General government	\$ 300,949
Public safety	197,726
Education	74,819
Public works	665,946
Culture and recreation	<u>106,783</u>
Total depreciation expense - governmental activities	<u>\$ 1,346,223</u>
Business-Type Activities:	
Sewer	<u>\$ 464,663</u>
Total depreciation expense - business-type activities	<u>\$ 464,663</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 and OPEB, in accordance with GASB Statements No. 68 and 75 are more formally discussed in the corresponding pension and OPEB notes.

11. Warrants Payable and Accounts Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018 as permitted by law. Accounts payable represents additional 2018 expenditures paid after July 15, 2018.

12. Notes Payable

The Town had the following short-term notes outstanding at June 30, 2018:

<u>Purpose</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2018</u>
Bond anticipation	1.44%	01/19/18	01/18/19	\$ 2,150,394
Sewer and other water pollution control facilities (MCWT)	0.00%	01/01/17	N/A	<u>1,634,060</u>
Total				<u>\$ 3,784,454</u>

The following summarizes activity in short-term notes payable during fiscal year 2018:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 647,024	\$ 2,650,780	\$ (1,147,410)	\$ 2,150,394
State anticipation	1,335,900	-	(1,335,900)	-
Revenue anticipation	-	3,500,000	(3,500,000)	-
Sewer and other water pollution control facilities (MCWT)	<u>1,541,745</u>	<u>92,315</u>	<u>-</u>	<u>1,634,060</u>
Total	<u>\$ 3,524,669</u>	<u>\$ 6,243,095</u>	<u>\$ (5,983,310)</u>	<u>\$ 3,784,454</u>

13. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through fiscal year 2022. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2018:

<u>Fiscal Year</u>	<u>Capital Lease</u>
2019	\$ 21,320
2020	21,320
2021	21,320
2022	<u>21,322</u>
Total minimum lease payments	85,282
Less amounts representing interest	<u>(9,425)</u>
Present Value of Minimum Lease Payments	<u>\$ 75,857</u>

14. 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, 2018</u>
<u>Bonds Payable:</u>			
Landfill	08/15/19	5.25%	\$ 70,000
Colle Opera House	06/15/22	4.25%	40,000
Municipal purpose	11/01/26	4.11%	214,998
Combined sewer overflow (MCWT)	07/15/27	2.00%	191,689
Municipal purpose	11/15/27	4.50%	3,310,000
FRCOG Brownsfields	06/30/33	2.50%	103,251
Municipal purpose	05/15/34	3.00%	80,000
Combined sewer overflow (MCWT)	01/15/39	2.41%	569,114
USDA	11/01/45	4.38%	<u>355,828</u>
Total Bonds Payable			4,934,880
<u>Notes Payable: *</u>			
Sheffield Parking Lot and Roof	05/22/21	2.15%	<u>60,000</u>
Total Notes Payable			<u>60,000</u>
Total Governmental Activities			<u>\$ 4,994,880</u>

* 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 2018 and due in fiscal year 2019.

<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, 2018</u>
Sewer - property acquisition	06/15/22	4.34%	\$ 20,000
Sewer - multiple purpose	06/15/23	4.42%	135,000
Sewer - multiple purpose	11/01/26	4.11%	104,729
Combined sewer overflow (MCWT)	07/15/27	2.00%	287,532
Sewer - multiple purpose	05/15/34	3.00%	1,314,998
Combined sewer overflow (MCWT)	01/15/39	2.41%	853,672
USDA	11/01/45	4.38%	533,744
USDA	09/21/47	4.13%	877,937
Total Business-Type Activities			<u>\$ 4,127,612</u>

B. Future Debt Service

The annual payments to retire all general obligation bonds and long-term notes outstanding as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	410,286	120,326	530,612
2024 - 2028	2,226,905	348,468	2,575,373
2029 - 2033	269,823	91,338	361,161
2034 and thereafter	391,320	82,887	474,207
Total	<u>\$ 4,994,880</u>	<u>\$ 1,282,607</u>	<u>\$ 6,277,487</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 198,485	\$ 144,102	\$ 342,587
2020	205,974	137,549	343,523
2021	203,543	130,682	334,225
2022	206,190	124,084	330,274
2023	203,921	117,353	321,274
2024 - 2028	938,142	494,060	1,432,202
2029 - 2033	913,866	340,737	1,254,603
2034 and thereafter	1,257,491	333,366	1,590,857
Total	<u>\$ 4,127,612</u>	<u>\$ 1,821,933</u>	<u>\$ 5,949,545</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Total Balance July 1, 2017 (restated)	Additions	Reductions	Total Balance June 30, 2018	Less Current Portion	Long-Term Portion June 30, 2018
Governmental Activities						
Notes payable	\$ 80,000	\$ -	\$ (20,000)	\$ 60,000	\$ (20,000)	40,000
Bonds payable	5,338,059	-	(403,179)	4,934,880	(409,525)	4,525,355
Net pension liability	5,188,827	-	(696,728)	4,492,099	-	4,492,099
Net OPEB liability	12,925,630	457,025	-	13,382,655	-	13,382,655
Other:						
Landfill closure	162,500	-	(12,500)	150,000	(12,500)	137,500
Accrued compensated absences	272,320	35,591	-	307,911	-	307,911
Capital lease	-	97,177	(21,320)	75,857	(17,638)	58,219
Subtotal Other	434,820	132,768	(33,820)	533,768	(30,138)	503,630
Totals	\$ 23,967,336	\$ 589,793	\$ (1,153,727)	\$ 23,403,402	\$ (459,663)	\$ 22,943,739
Business-Type Activities						
Bonds payable	\$ 4,329,453	\$ -	\$ (201,841)	\$ 4,127,612	\$ (198,485)	\$ 3,929,127
Net pension liability	525,740	-	(59,125)	466,615	-	466,615
Net OPEB liability	1,436,181	50,781	-	1,486,962	-	1,486,962
Other:						
Accrued compensated absences	14,263	-	(2,789)	11,474	-	11,474
Totals	\$ 6,305,637	\$ 50,781	\$ (263,755)	\$ 6,092,663	\$ (198,485)	\$ 5,894,178

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	\$ 840,000	90.28%	\$ 758,352
Sheffield School Windows	240,000	100.00%	240,000
Total	\$ 1,080,000		\$ 998,352

15. 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 \$150,000 reported as landfill postclosure care liability at June 30, 2018 represents the remaining estimated postclosure maintenance costs. These amounts are based on what it would cost to perform all postclosure care in 2018. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

16. 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. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. 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.

17. Transfers

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	\$ 8,125	\$ 364,716
Airport fund	30,417	-
Nonmajor Funds:		
Special revenue funds	-	8,125
Capital project fund	<u>3,679</u>	<u>-</u>
Subtotal Nonmajor Funds	3,679	8,125
<u>Business-Type Funds:</u>		
Sewer fund	<u>330,620</u>	<u>-</u>
Grand Total	<u>\$ 372,841</u>	<u>\$ 372,841</u>

18. **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, 2018:

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 resolution, capital project accounts funded by appropriation, stabilization funds restricted for specific purpose stabilization funds, 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, 2018:

	<u>General Fund</u>	<u>Airport Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 65,688	\$ 65,688
Total Nonexpendable	-	-	65,688	65,688
Restricted				
Special revenue funds	-	9,592	788,623	798,215
Expendable permanent funds	-	-	31,365	31,365
Total Restricted	-	9,592	819,988	829,580
Committed				
Special articles	544,708	-	-	544,708
Stabilization funds for specific purposes *	159,602	-	-	159,602
Capital project funds funded by general fund appropriation	-	-	10,760	10,760
Town set-asides	-	-	50,977	50,977
Total Committed	704,310	-	61,737	766,047
Assigned				
Reserved for expenditures	344,000	-	-	344,000
Total Assigned	344,000	-	-	344,000
Unassigned				
General fund	2,917,389	-	-	2,917,389
General stabilization fund	846,592	-	-	846,592
Deficit capital project funds	-	-	(175,000)	(175,000)
Total Unassigned	3,763,981	-	(175,000)	3,588,981
Total Fund Balance	\$ 4,812,291	\$ 9,592	\$ 772,413	\$ 5,594,296

* 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.

19. 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 100 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 April 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, 2018 was \$978,083, 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, 2018, the Town reported a liability of approximately \$4.96 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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, 2018, the Town's proportion was 51.94 percent.

For the year ended June 30, 2018, the Town recognized pension expense of \$893,368. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension related:		
Differences between expected and actual experience	\$ 419	\$ 359
Net difference between projected and actual investment earnings	-	902
Changes in assumptions	1,413	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	37
Total	<u>\$ 1,832</u>	<u>\$ 1,298</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:	
2019	\$ 288
2020	279
2021	36
2022	<u>(69)</u>
Total	<u>\$ 534</u>

D. Actuarial Assumptions

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

Valuation Date	1/1/2018
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.25%
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, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period ended December 31, 2017.

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).

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. The Board decided to decrease this assumption again in this valuation to 7.25%. This change increased the normal cost by approximately \$60,000 and the total accrued liability by approximately \$1.34 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%	7.80%
Emerging Int'l Equities	6.00%	9.30%
Core Bonds	5.00%	3.75%
20+ Yr. Treasury STRIPS	2.00%	3.50%
TIPS	5.00%	3.75%
High-Yield Bonds	1.50%	5.50%
Bank Loans	2.50%	5.50%
EMD (External)	1.00%	5.00%
EMD (Local Currency)	0.00%	6.50%
Distressed Debt	3.00%	8.80%
Other Credit Opportunities	2.00%	6.50%
Private Equity	11.00%	9.50%
Real Estate	10.00%	6.70%
Timberland	4.00%	6.25%
Hedge Funds & Portfolio Completion	13.00%	6.40%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.25%. 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 7.25 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 or 1 percentage-point higher than the current rate (in thousands):

	Current	
1%	Discount	1%
Decrease	Rate	Increase
<u>(6.25%)</u>	<u>(7.25%)</u>	<u>(8.25%)</u>
\$7,931	\$4,959	\$2,436

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.

20. Other Post-Employment Benefits (GASB 75)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2017.

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through Hampshire County Group Insurance Trust. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Plan Membership

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	61
Active employees	<u>69</u>
Total	<u><u>130</u></u>

B. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3%, average, including inflation
Investment rate of return	3.13%, net of OPEB plan investment expense
Municipal bond rate and discount rate	3.13%
Healthcare cost trend rates	8%, decreasing to an ultimate rate of 5% as of 2018 and later years
Retirees' share of benefit-related costs	20%

Mortality rates were based on RP 2014 with MP2014 projected.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of June 30, 2017.

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>
Equities	40.00%	6.5%
Fixed income	22.00%	1.5%
Real estate	10.00%	5.5%
Private equity	11.00%	6.0%
Cash	<u>17.00%</u>	0.0%
Total	<u>100.00%</u>	

C. Discount 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. As a result, a blended discount rate was used based on a combination of the investment rate of return of 3.13% and municipal bond rate of 3.13% (based on index provided by S&P Municipal Bond 20 Year High Grade Bond index as of June 30, 2017).

D. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2017, were as follows:

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

E. Changes in the Net OPEB Liability

The following presents the changes in the net OPEB liability:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
	Balances, beginning of year	\$ 14,666,885	\$ 250,000
Changes for the year:			
Service cost	528,337	-	528,337
Interest	456,765	-	456,765
Contributions - employer	-	510,074	(510,074)
Net investment income	-	22,296	(22,296)
Benefit payments	(455,000)	(455,000)	-
Net Changes	<u>530,102</u>	<u>77,370</u>	<u>452,732</u>
Balances, end of year	<u>\$ 15,196,987</u>	<u>\$ 327,370</u>	<u>\$ 14,869,617</u>

F. 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 one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
\$17,208,560	\$14,869,617	\$12,530,675

G. 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 one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% Decrease (7.0%)	Current Healthcare Cost Trend Rates (8.0%)	1% Increase (9.0%)
\$12,236,329	\$14,869,617	\$18,018,782

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized an OPEB expense of \$402,732. At June 30, 2018, the Town reported deferred outflows of resources related to OPEB from contributions subsequent to the measurement date.

The \$50,000 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2019.

21. Other Post-Employment Benefits (GASB 74)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2016, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. Investments

The OPEB trust fund assets consist of shares in the Pension Reserve Investment Trust (PRIT) fund.

Rate of return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 10.86 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

B. Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3%
Salary increases	3%, average, including inflation
Investment rate of return	2.98%, net of OPEB plan investment expense
Municipal bond rate	2.98%
Discount rate	2.98%

Healthcare cost trend rates	8%, decreasing to an ultimate rate of 5% as of 2019 and later years
Retirees' share of benefit-related costs	20%

Mortality rates were based on RP2014 with MP 2014 projections.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of June 30, 2017.

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, 2018 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>	

C. Discount Rate

The discount rate used to measure the total pension liability was 2.98%. 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 OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, a blended discount rate was used based on a combination of the investment rate of return of 2.98% and municipal bond rate of 2.98% (based on index provided by S&P on 20-year municipal bond rate as of June 30, 2018).

D. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 16,191,334
Plan fiduciary net position	<u>(412,938)</u>
Net OPEB liability	<u>\$ 15,778,396</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.55%

E. 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 one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease <u>(1.98%)</u>	Discount Rate <u>(2.98%)</u>	1% Increase <u>(3.98%)</u>
\$18,265,730	\$15,778,396	\$13,291,062

F. 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 one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% Decrease <u>(7.0%)</u>	Healthcare Cost Trend Rates <u>(8.0%)</u>	1% Increase <u>(9.0%)</u>
\$12,902,232	\$15,778,396	\$19,236,163

22. Subsequent Events

Long-Term Debt

Subsequent to June 30, 2018, the Town has incurred the following additional long-term debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Combined sewer overflow (MCWT)	\$ 1,634,060	2.00%	09/12/18	07/15/38

Short-Term Debt

Subsequent to June 30, 2018, the Town has incurred the following additional short-term debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Revenue anticipation	\$ 2,000,000	2.25%	08/09/18	10/11/18

Capital Lease

In July 2018, the Town entered into a lease purchase agreement for a Machete Boom Mower for approximately \$115,000. This lease will be repaid over a 5-year term with an interest rate of 3.75%.

23. 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.

Pending Appellate Tax Board - The Town of Montague has a pending case with the appellate tax board related to FirstLight Hydro. The Town has added a substantial amount in to overlay each year in anticipation of the resolution.

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, 2018 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, 2018, according to the Trust's unaudited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$4.5 million, the Trust was in a surplus position of approximately \$22 million.

Solar Lease – In August 2017 the Town entered into a land lease agreement with Kearsarge Montague LLC whereby the Town leased landfill property to Kearsarge Montague LLC (for \$155,922 per year, subject to a 1.8% annual escalator, beginning one year after the date of Commercial Operation) for them to construct and operate a solar farm. The farm became operational in June 2018.

The term of the agreement is 25 years from the date of operation (June 2018). Kearsarge Montague LLC retains ownership of the system and the electricity generated, as well as the rights to all solar renewable energy credits (SRECs) generated by the farm's operation. The Town has an option to purchase the system upon expiration of the lease agreement for a purchase price equal to the fair market value of the system.

24. Beginning Net Position Restatement

The beginning (July 1, 2017) net position of the Town's governmental activities and business-type activities have been restated as follows:

	Governmental <u>Activities</u>	<u>Business-Type Activities</u> <u>Sewer Fund</u>
As previously reported	\$ 11,502,755	\$ 6,022,506
Implementation of GASB 75 for OPEB	<u>(7,717,224)</u>	<u>(754,588)</u>
As restated	<u>\$ 3,785,531</u>	<u>\$ 5,267,918</u>

TOWN OF MONTAGUE, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)
JUNE 30, 2018
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
(Amounts expressed in thousands)

Montague Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	December 31, 2017	51.94%	\$4,959	\$3,824	129.68%	81.80%
June 30, 2017	December 31, 2016	52.36%	\$5,715	\$3,641	156.97%	77.20%
June 30, 2016	December 31, 2015	52.19%	\$5,375	\$3,354	160.27%	77.00%
June 30, 2015	December 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, 2018

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

(Amounts expressed in thousands)

Montague Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$978	\$978	-	\$3,824	25.58%
June 30, 2017	December 31, 2016	\$950	\$950	-	\$3,641	26.09%
June 30, 2016	December 31, 2015	\$925	\$925	-	\$3,354	27.58%
June 30, 2015	December 31, 2014	\$870	\$870	-	\$3,569	24.38%

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

TOWN OF MONTAGUE, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (GASB 74 AND 75)
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
(Amounts expressed in thousands)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 567	\$ 528
Interest on unfunded liability - time value of \$	476	457
Benefit payments, including refunds of member contributions	(469)	(455)
Difference between expected and actual experience	<u>420</u>	<u>-</u>
Net change in total OPEB liability	993	530
Total OPEB liability - beginning	<u>15,197</u>	<u>14,667</u>
Total OPEB liability - ending (a)	<u>\$ 16,190</u>	<u>\$ 15,197</u>
Plan fiduciary net position		
Contributions - employer	\$ 519	\$ 510
Net investment income	36	22
Benefit payments, including refunds of member contributions	<u>(469)</u>	<u>(455)</u>
Net change in plan fiduciary net position	86	77
Plan fiduciary net position - beginning	<u>327</u>	<u>250</u>
Plan fiduciary net position - ending (b)	<u>\$ 413</u>	<u>\$ 327</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 15,777</u>	<u>\$ 14,870</u>

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 AND 75)
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
(Amounts expressed in thousands)

Schedule of Net OPEB Liability	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 16,190	\$ 15,197
Plan fiduciary net position	<u>413</u>	<u>327</u>
Net OPEB liability	<u>\$ 15,777</u>	<u>\$ 14,870</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.55%	2.15%
Covered employee payroll	\$ 3,650	\$ 3,650
Participating employer net OPEB liability as a percentage of covered employee payroll	432.26%	407.40%
 Schedule of Contributions	 <u>2018</u>	 <u>2017</u>
Actuarially determined contribution	\$ 1,032	\$ 985
Contributions in relation to the actuarially determined contribution	<u>519</u>	<u>510</u>
Contribution deficiency (excess)	<u>\$ 513</u>	<u>\$ 475</u>
Covered employee payroll	\$ 3,650	\$ 3,650
Contributions as a percentage of covered employee payroll	14.22%	13.97%
 Schedule of Investment Returns	 <u>2018</u>	 <u>2017</u>
Annual money weighted rate of return, net of investment expense	10.86%	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.

See Independent Auditors' Report.