



TOWN OF MONTAGUE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2019

TOWN OF MONTAGUE, MASSACHUSETTS

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Additional Offices:

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

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Montague, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Montague, Massachusetts, as of and for the year ended June 30, 2019, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2018), 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. 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.

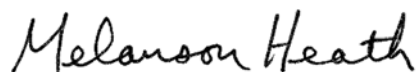
Opinions

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, 2019, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2018) 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 Pension and OPEB schedules 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.



October 29, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Montague (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2019.

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, 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 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, the enterprise fund is used to account for sewer operations, which is considered a 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 is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred (inflows) by \$7,848,799 (i.e., net position), a change of \$(1,360,694) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$7,943,788, a change of \$2,349,492 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,594,748, a change of \$(169,233) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	Governmental Activities		Business-Type Activities		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 10,513,167	\$ 7,264,859	\$ 1,346,525	\$ 974,017	\$ 11,859,692	\$ 8,238,876
Capital assets	<u>21,183,105</u>	<u>21,169,337</u>	<u>13,098,068</u>	<u>13,534,760</u>	<u>34,281,173</u>	<u>34,704,097</u>
Total Assets	31,696,272	28,434,196	14,444,593	14,508,777	46,140,865	42,942,973
Deferred outflows of resources	2,114,369	1,704,541	222,149	177,384	2,336,518	1,881,925
Current liabilities	2,143,371	1,261,129	646,867	4,218,636	2,790,238	5,479,765
Non-current liabilities	<u>26,795,102</u>	<u>22,943,739</u>	<u>9,937,112</u>	<u>5,894,178</u>	<u>36,732,214</u>	<u>28,837,917</u>
Total Liabilities	28,938,473	24,204,868	10,583,979	10,112,814	39,522,452	34,317,682
Deferred inflows of resources	995,836	1,175,607	110,296	122,116	1,106,132	1,297,723
Net investment in capital assets	15,799,932	16,004,360	5,542,011	5,907,146	21,341,943	21,911,506
Restricted	913,515	946,245	-	-	913,515	946,245
Unrestricted	<u>(12,837,115)</u>	<u>(12,192,343)</u>	<u>(1,569,544)</u>	<u>(1,455,915)</u>	<u>(14,406,659)</u>	<u>(13,648,258)</u>
Total Net Position	<u>\$ 3,876,332</u>	<u>\$ 4,758,262</u>	<u>\$ 3,972,467</u>	<u>\$ 4,451,231</u>	<u>\$ 7,848,799</u>	<u>\$ 9,209,493</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 \$7,848,799, a change of \$(1,360,694) in comparison to the prior year.

The largest portion of net position, \$21,341,943, 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, \$913,515, represents resources that are subject to external restrictions on how they may be used. The remaining balances of unrestricted net position reflects a deficit of \$(14,406,659) primarily resulting from unfunded pension and OPEB liabilities.

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,196,987	\$ 1,032,672	\$ 2,426,197	\$ 1,659,028	\$ 3,623,184	\$ 2,691,700
Operating grants and contributions	1,044,577	1,390,227	-	-	1,044,577	1,390,227
Capital grants and contributions	1,033,100	941,432	174,393	59,926	1,207,493	1,001,358
General revenues:						
Property taxes	17,773,525	17,171,678	-	-	17,773,525	17,171,678
Excises	808,298	824,925	-	-	808,298	824,925
Penalties, interest and other taxes	162,667	180,566	-	-	162,667	180,566
Grants and contributions not restricted to specific programs	1,658,947	1,579,147	-	-	1,658,947	1,579,147
Investment income	61,757	32,131	103	107	61,860	32,238
Other	<u>61,162</u>	<u>542,741</u>	<u>-</u>	<u>-</u>	<u>61,162</u>	<u>542,741</u>
Total Revenues	<u>23,801,020</u>	<u>23,695,519</u>	<u>2,600,693</u>	<u>1,719,061</u>	<u>26,401,713</u>	<u>25,414,580</u>
Expenses:						
General government	2,767,221	2,916,594	-	-	2,767,221	2,916,594
Public safety	4,034,622	3,565,039	-	-	4,034,622	3,565,039
Education	10,860,317	10,210,464	-	-	10,860,317	10,210,464
Public works	4,309,634	3,785,823	-	-	4,309,634	3,785,823
Health and human services	374,260	380,446	-	-	374,260	380,446
Culture and recreation	1,078,863	1,119,687	-	-	1,078,863	1,119,687
Interest on long-term debt	316,439	213,957	-	-	316,439	213,957
Intergovernmental	198,697	200,158	-	-	198,697	200,158
Sewer operations	-	-	<u>3,300,077</u>	<u>2,866,368</u>	<u>3,300,077</u>	<u>2,866,368</u>
Total Expenses	<u>23,940,053</u>	<u>22,392,168</u>	<u>3,300,077</u>	<u>2,866,368</u>	<u>27,240,130</u>	<u>25,258,536</u>
Change in net position before transfers and other financing uses	(139,033)	1,303,351	(699,384)	(1,147,307)	(838,417)	156,044
Transfers in (out)	(220,620)	(330,620)	220,620	330,620	-	-
Other financing use	<u>(522,277)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(522,277)</u>	<u>-</u>
Change in Net Position	(881,930)	972,731	(478,764)	(816,687)	(1,360,694)	156,044
Net Position - Beginning of Year	<u>4,758,262</u>	<u>3,785,531</u>	<u>4,451,231</u>	<u>5,267,918</u>	<u>9,209,493</u>	<u>9,053,449</u>
Net Position - End of Year	<u>\$ 3,876,332</u>	<u>\$ 4,758,262</u>	<u>\$ 3,972,467</u>	<u>\$ 4,451,231</u>	<u>\$ 7,848,799</u>	<u>\$ 9,209,493</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(881,930). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 284,351
Major fund - Airport revenues and transfers in excess of expenditures	17,790
Major fund - DPW facility capital project bond proceeds in excess of expenditures	1,943,271
Non-major fund revenues and bond proceeds in excess of expenditures	104,080
Depreciation expense in excess of principal debt service	(999,882)
Capital assets purchased from taxation and grants	1,443,174
Bond proceeds	(2,659,000)
Change in net pension liability, net of deferrals	(384,740)
Change in net OPEB liability, net of deferrals	(711,828)
Other timing differences	<u>80,854</u>
Total	<u>\$ (881,930)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(478,764). Key elements of this change are as follows:

Sewer fund expenditures in excess of revenues	\$ (699,384)
Transfer from general fund	<u>220,620</u>
Total	<u>\$ (478,764)</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 \$7,943,788, a change of \$2,349,492 in comparison with the prior year. Key elements of this change are as follows:

General fund operations, as discussed further below	\$ 284,351
Major fund - Airport revenues and transfers in excess of expenditures	17,790
Major fund - DPW facility capital project bond proceeds of expenditures	1,943,271
Non-major fund revenues and bond proceeds in excess of expenditures	<u>104,080</u>
Total	<u>\$ 2,349,492</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 \$3,594,748, while total fund balance was \$5,096,642. 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>2019</u>	<u>2018</u>	<u>Change</u>	<u>% of Total 2019 General Fund Expenditures</u>
Unassigned Fund Balance	\$ 3,594,748	\$ 3,763,981	\$ (169,233)	17.9%
Total Fund Balance	\$ 5,096,642	\$ 4,812,291	\$ 284,351	25.3%

The total fund balance of the general fund changed by \$284,351 during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 178,833
State and local revenues over budget	513,869
Budgetary appropriations unspent by departments	527,589
Use of free cash (fund balance) as a funding sources for non-recurring items	(618,160)
Difference between current year encumbrances to be spent in the subsequent year and prior year encumbrances spent in the current year	224,026
Other financing use - refund to taxpayer	(790,429)
Change in Stabilization funds	<u>248,623</u>
Total	<u>\$ 284,351</u>

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

	<u>2019</u>	<u>2018</u>	<u>Change</u>
General stabilization	\$ 991,701	\$ 846,592	\$ 145,109
Capital stabilization	178,810	60,081	118,729
Franklin County Technical School stabilization	46,031	99,477	(53,446)
Gill-Montague Regional School District stabilization	<u>38,275</u>	<u>44</u>	<u>38,231</u>
Total Stabilization Funds	<u>\$ 1,254,817</u>	<u>\$ 1,006,194</u>	<u>\$ 248,623</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 \$(1,569,544), a change of \$(562,155) in comparison to the 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 \$214,975. Reasons for these amendments include:

Shea roof repairs	\$ 49,975
Town hall and annex roof repairs	<u>165,000</u>
Total	<u>\$ 214,975</u>

All of this increase was funded from 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 \$34,281,173 (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	\$ (1,429,406)
Depreciation expense – sewer fund	(469,310)
Purchase of police vehicle	36,054
Purchase of public works vehicles and equipment	189,790
Purchase of server	8,870
Purchase of library books	85,946
Purchase of airport equipment	94,676
Foreclosed properties	139,876
Construction in progress - DPW facility	559,729
Construction in progress – airport runway replacement	180,256
Construction in progress – various projects	147,978
Construction in progress – pump station repairs and solar array	<u>32,618</u>
Total	\$ <u>(422,923)</u>

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

Change in credit rating. During the fiscal year, the Town’s S&P credit rating changed from AA- to AA.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$14,727,531, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the 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, 2019

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Assets			
Current:			
Cash and short-term investments	\$ 8,427,435	\$ 700,229	\$ 9,127,664
Investments	305,325	-	305,325
Receivables, net of allowance for uncollectible:			
Property taxes	697,396	-	697,396
Excises	119,272	-	119,272
User fees	-	569,779	569,779
Departmental and other	73,298	-	73,298
Intergovernmental	572,370	76,517	648,887
Other assets	111,611	-	111,611
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax liens	206,460	-	206,460
Land and construction in progress	2,473,286	248,279	2,721,565
Capital assets, net of accumulated depreciation	18,709,819	12,849,789	31,559,608
Deferred Outflows of Resources			
Related to pensions	1,766,095	183,452	1,949,547
Related to OPEB	<u>348,274</u>	<u>38,697</u>	<u>386,971</u>
Total Assets and Deferred Outflows of Resources	33,810,641	14,666,742	48,477,383
Liabilities			
Current:			
Warrants payable	214,098	58,785	272,883
Accounts payable	104,442	156,597	261,039
Accrued payroll and withholdings	119,232	8,589	127,821
Accrued interest payable	111,761	120,886	232,647
Intergovernmental payable	163,035	-	163,035
Refund liability	790,429	-	790,429
Other current liabilities	103,255	-	103,255
Current portion of long-term liabilities:			
Notes payable	20,000	-	20,000
Bonds payable	463,907	302,010	765,917
Other	53,212	-	53,212
Noncurrent:			
Notes payable, net of current portion	20,000	-	20,000
Bonds payable, net of current portion	6,720,450	7,241,164	13,961,614
Net pension liability	6,110,213	634,696	6,744,909
Net OPEB liability	13,450,708	2,049,695	15,500,403
Other, net of current portion	493,731	11,557	505,288
Deferred Inflows of Resources			
Related to pensions	48,787	5,068	53,855
Related to OPEB	<u>947,049</u>	<u>105,228</u>	<u>1,052,277</u>
Total Liabilities and Deferred Inflows of Resources	29,934,309	10,694,275	40,628,584
Net Position			
Net investment in capital assets	15,799,932	5,542,011	21,341,943
Restricted for:			
Grants and other statutory restrictions	809,917	-	809,917
Permanent funds:			
Nonexpendable	65,816	-	65,816
Expendable	37,782	-	37,782
Unrestricted	<u>(12,837,115)</u>	<u>(1,569,544)</u>	<u>(14,406,659)</u>
Total Net Position	<u>\$ 3,876,332</u>	<u>\$ 3,972,467</u>	<u>\$ 7,848,799</u>

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

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	<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	\$ 2,767,221	\$ 321,885	\$ 580,134	\$ 368,829	\$ (1,496,373)	\$ -	\$ (1,496,373)
Public safety	4,034,622	412,888	84,452	-	(3,537,282)	-	(3,537,282)
Education	10,860,317	-	114,056	-	(10,746,261)	-	(10,746,261)
Public works	4,309,634	251,493	68,810	664,271	(3,325,060)	-	(3,325,060)
Health and human services	374,260	28,762	138,900	-	(206,598)	-	(206,598)
Culture and recreation	1,078,863	181,959	58,225	-	(838,679)	-	(838,679)
Interest	316,439	-	-	-	(316,439)	-	(316,439)
Intergovernmental	198,697	-	-	-	(198,697)	-	(198,697)
Total Governmental Activities	23,940,053	1,196,987	1,044,577	1,033,100	(20,665,389)	-	(20,665,389)
Business-Type Activities							
Sewer operations	3,300,077	2,426,197	-	174,393	-	(699,487)	(699,487)
Total Business-Type Activities	3,300,077	2,426,197	-	174,393	-	(699,487)	(699,487)
Total	\$ 27,240,130	\$ 3,623,184	\$ 1,044,577	\$ 1,207,493	(20,665,389)	(699,487)	(21,364,876)
General Revenues and Transfers							
Property taxes					17,773,525	-	17,773,525
Excises					808,298	-	808,298
Penalties, interest and other taxes					162,667	-	162,667
Grants and contributions not restricted to specific programs					1,658,947	-	1,658,947
Investment income					61,757	103	61,860
Miscellaneous					61,162	-	61,162
Transfers, net					(220,620)	220,620	-
Total General Revenues and Transfers					20,305,736	220,723	20,526,459
Other Use							
Refund to taxpayer					(522,277)	-	(522,277)
Change in Net Position					(881,930)	(478,764)	(1,360,694)
Net Position							
Beginning of Year					4,758,262	4,451,231	9,209,493
End of Year					\$ 3,876,332	\$ 3,972,467	\$ 7,848,799

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

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	<u>General</u>	<u>Airport Fund</u>	<u>DPW Facility Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and short-term investments	\$ 5,899,303	\$ -	\$ 1,996,424	\$ 531,708	\$ 8,427,435
Investments	178,810	-	-	126,515	305,325
Receivables:					
Property taxes	987,121	-	-	-	987,121
Excises	127,687	-	-	-	127,687
Departmental and other	52,458	-	-	20,840	73,298
Intergovernmental	148,983	145,318	-	278,069	572,370
Due from other funds	37,207	-	-	-	37,207
Other assets	<u>111,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,611</u>
Total Assets	<u>\$ 7,543,180</u>	<u>\$ 145,318</u>	<u>\$ 1,996,424</u>	<u>\$ 957,132</u>	<u>\$ 10,642,054</u>
Liabilities					
Warrants payable	\$ 121,937	\$ 911	\$ 53,153	\$ 38,097	\$ 214,098
Accounts payable	-	104,442	-	-	104,442
Accrued payroll and withholdings	110,898	376	-	7,958	119,232
Due to other funds	-	12,207	-	25,000	37,207
Intergovernmental payable	163,035	-	-	-	163,035
Refund liability	790,429	-	-	-	790,429
Other liabilities	<u>93,671</u>	<u>-</u>	<u>-</u>	<u>9,584</u>	<u>103,255</u>
Total Liabilities	1,279,970	117,936	53,153	80,639	1,531,698
Deferred Inflow of Resources					
Unavailable revenues	1,166,568	-	-	-	1,166,568
Fund Balances					
Nonspendable	-	-	-	65,816	65,816
Restricted	-	27,382	1,943,271	801,651	2,772,304
Committed	1,031,850	-	-	67,173	1,099,023
Assigned	470,044	-	-	-	470,044
Unassigned	<u>3,594,748</u>	<u>-</u>	<u>-</u>	<u>(58,147)</u>	<u>3,536,601</u>
Total Fund Balances	<u>5,096,642</u>	<u>27,382</u>	<u>1,943,271</u>	<u>876,493</u>	<u>7,943,788</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 7,543,180</u>	<u>\$ 145,318</u>	<u>\$ 1,996,424</u>	<u>\$ 957,132</u>	<u>\$ 10,642,054</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, 2019

Total Governmental Fund Balances	\$	7,943,788
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		21,183,105
Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection.		1,074,888
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.		(25,778,506)
Other		<u>(546,943)</u>
Net Position of Governmental Activities	\$	<u><u>3,876,332</u></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, 2019

	<u>General</u>	<u>Airport Fund</u>	<u>DPW Facility Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 17,419,324	\$ -	\$ -	\$ -	\$ 17,419,324
Excises	804,531	-	-	-	804,531
Penalties, interest and other taxes	162,667	-	-	-	162,667
Charges for services	537,346	37,497	-	409,806	984,649
Intergovernmental	1,941,878	368,829	-	1,438,410	3,749,117
Licenses and permits	184,183	-	-	-	184,183
Fines and forfeitures	27,964	-	-	-	27,964
Investment income	54,343	29	-	7,385	61,757
Miscellaneous	23,620	-	-	18,542	42,162
	<u>21,155,856</u>	<u>406,355</u>	<u>-</u>	<u>1,874,143</u>	<u>23,436,354</u>
Total Revenues					
Expenditures					
General government	1,256,073	-	-	646,303	1,902,376
Public safety	2,073,517	-	-	266,709	2,340,226
Education	10,838,598	-	-	-	10,838,598
Public works	2,125,384	401,008	559,729	866,228	3,952,349
Health and human services	247,467	-	-	23,360	270,827
Culture and recreation	566,802	-	-	228,476	795,278
Employee benefits	2,204,900	-	-	-	2,204,900
Debt service	604,727	-	-	29,475	634,202
Intergovernmental	198,697	-	-	-	198,697
	<u>20,116,165</u>	<u>401,008</u>	<u>559,729</u>	<u>2,060,551</u>	<u>23,137,453</u>
Total Expenditures					
Excess (deficiency) of revenues over expenditures	1,039,691	5,347	(559,729)	(186,408)	298,901
Other Financing Sources (Uses)					
Issuance of bonds	-	-	2,503,000	156,000	2,659,000
Bond premiums	-	-	-	19,000	19,000
Refund to taxpayer	(522,277)	-	-	-	(522,277)
Issuance of capital lease	-	-	-	115,488	115,488
Transfers in	-	12,443	-	-	12,443
Transfers (out)	(233,063)	-	-	-	(233,063)
	<u>(755,340)</u>	<u>12,443</u>	<u>2,503,000</u>	<u>290,488</u>	<u>2,050,591</u>
Total Other Financing Sources (Uses)					
Change in fund balance	284,351	17,790	1,943,271	104,080	2,349,492
Fund Balance, at Beginning of Year	4,812,291	9,592	-	772,413	5,594,296
Fund Balance, at End of Year	<u>\$ 5,096,642</u>	<u>\$ 27,382</u>	<u>\$ 1,943,271</u>	<u>\$ 876,493</u>	<u>\$ 7,943,788</u>

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

TOWN OF MONTAGUE, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ 2,349,492

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:

Capital outlay	1,443,174
Depreciation	(1,429,406)

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:

Issuance of debt	(2,659,000)
Repayments of debt	429,524
Issuance of capital lease	(115,488)
Repayments of capital lease	63,898
Other	(111,761)

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.

205,791

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:

Net pension liability and related deferred outflows and inflows of resources	(711,828)
Net OPEB liability and related deferred outflows and inflows of resources	(384,740)

Other differences	38,414
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Change in Net Position of Governmental Activities \$ (881,930)

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, 2019

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Property taxes	\$ 17,508,643	\$ 17,508,643	\$ 17,508,643	\$ -
Excises	657,000	657,000	804,531	147,531
Penalties, interest and other taxes	75,000	75,000	162,667	87,667
Charges for services	380,922	380,922	537,346	156,424
Intergovernmental	1,909,831	1,909,831	1,941,878	32,047
Licenses and permits	102,000	102,000	184,183	82,183
Fines and forfeitures	7,000	7,000	27,964	20,964
Investment income	5,000	5,000	28,236	23,236
Miscellaneous	59,803	59,803	23,620	(36,183)
Total Revenues	20,705,199	20,705,199	21,219,068	513,869
Expenditures				
General government	1,460,953	1,661,928	1,526,241	135,687
Public safety	2,124,166	2,130,166	2,053,564	76,602
Education	10,924,499	10,924,499	10,924,499	-
Public works	2,119,664	2,119,664	2,009,794	109,870
Health and human services	291,414	291,414	247,467	43,947
Culture and recreation	571,642	571,642	570,302	1,340
Employee benefits	2,352,404	2,352,404	2,204,900	147,504
Debt service	606,054	614,054	604,727	9,327
Intergovernmental	198,909	198,909	198,697	212
Total Expenditures	20,649,705	20,864,680	20,340,191	524,489
Excess (deficiency) of revenues over expenditures	55,494	(159,481)	878,877	1,038,358
Other Financing Sources/Uses				
Transfers in	53,465	53,465	53,465	-
Transfers out	(512,144)	(512,144)	(509,044)	3,100
Use of free cash:				
Operating budget	156,000	156,000	-	(156,000)
Capital budget	207,035	422,010	-	(422,010)
Transfer Stabilization funds	40,150	40,150	-	(40,150)
Total Other Financing Sources/Uses	(55,494)	159,481	(455,579)	(615,060)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 423,298	\$ 423,298

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

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Business-Type Activities
	Sewer Fund
Assets	
Current:	
Cash and short-term investments	\$ 700,229
Intergovernmental receivables	76,517
User fees, net of allowance for uncollectibles	569,779
Total Current Assets	1,346,525
Noncurrent:	
Capital assets:	
Land and construction in progress	248,279
Capital assets, net of accumulated depreciation	12,849,789
Total Noncurrent Assets	13,098,068
Deferred Outflows of Resources	
Related to pensions	183,452
Related to OPEB	38,697
Total Assets and Deferred Outflows of Resources	14,666,742
Liabilities	
Current:	
Warrants payable	58,785
Accounts payable	156,597
Accrued payroll	8,589
Accrued interest payable	120,886
Current portion of long-term liabilities:	
Bonds payable	302,010
Total Current Liabilities	646,867
Noncurrent:	
Bonds payable, net of current portion	7,241,164
Net pension liability	634,696
Net OPEB liability	2,049,695
Other	11,557
Total Noncurrent Liabilities	9,937,112
Deferred Inflows of Resources	
Related to pensions	5,068
Related to OPEB	105,228
Total Liabilities and Deferred Inflows of Resources	10,694,275
Net Position	
Net investment in capital assets	5,542,011
Unrestricted	(1,569,544)
Total Net Position	\$ 3,972,467

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, 2019

	<u>Business-Type Activities</u>
	<u>Sewer Fund</u>
Operating Revenues	
Charges for services	\$ <u>2,426,197</u>
Total Operating Revenues	2,426,197
Operating Expenses	
Salaries and benefits	1,339,460
Other operating expenses	1,250,121
Depreciation	<u>469,310</u>
Total Operating Expenses	<u>3,058,891</u>
Operating Income (Loss)	(632,694)
Nonoperating Revenues (Expenses)	
Intergovernmental revenue	174,393
Investment income	103
Interest expense	<u>(241,186)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(66,690)</u>
Income (Loss) Before Transfers	(699,384)
Transfers	
Transfers in	<u>220,620</u>
Change in Net Position	(478,764)
Net Position at Beginning of Year	<u>4,451,231</u>
Net Position at End of Year	\$ <u><u>3,972,467</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, 2019

	Business-Type Activities
	Sewer Fund
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 2,326,838
Payments to vendors and employees	<u>(2,044,105)</u>
Net Cash Provided By Operating Activities	282,733
Cash Flows From Noncapital Financing Activities	
Transfers in	<u>220,620</u>
Net Cash Provided By Noncapital Financing Activities	220,620
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(32,618)
Repayments of short-term debt	(3,611,109)
Issuance of bonds	3,614,047
Principal payments on bonds and notes	(198,485)
Grant income	174,393
Interest payments	<u>(176,535)</u>
Net Cash (Used For) Capital and Related Financing Activities	(230,307)
Cash Flows From Investing Activities	
Investment income	<u>103</u>
Net Cash Provided By Investing Activities	<u>103</u>
Net Change in Cash and Short-Term Investments	273,149
Cash and Short Term Investments, Beginning of Year	<u>427,080</u>
Cash and Short Term Investments, End of Year	<u>\$ 700,229</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities	
Operating (loss)	\$ (632,694)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation	469,310
Changes in assets, liabilities, and deferred outflows/inflows:	
User fees	(132,842)
Other assets	33,483
Deferred outflows - related to pensions	(11,068)
Deferred outflows - related to OPEB	(33,697)
Warrants and accounts payable	(130,608)
Accrued liabilities	83
Other liabilities	1,772
Net pension liability	168,081
Net OPEB liability	562,733
Deferred inflows - related to pensions	(117,048)
Deferred inflows - related to OPEB	<u>105,228</u>
Net Cash Provided By Operating Activities	<u>\$ 282,733</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, 2019

	Pension and OPEB <u>Trust Funds</u>	Private Purpose Trust <u>Funds</u>
Assets		
Cash and short-term investments	\$ 300,531	\$ 124,738
Investments:		
External investment pools	41,511,806	-
Accounts receivable	<u>16,661</u>	<u>-</u>
Total Assets	41,828,998	124,738
Net Position		
Restricted for pension purposes	41,336,788	-
Restricted for OPEB purposes	492,210	-
Restricted for other purposes	<u>-</u>	<u>124,738</u>
Total Net Position	\$ <u>41,828,998</u>	\$ <u>124,738</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, 2019

	Pension and OPEB Trust <u>Funds</u>	Private Purpose Trust <u>Funds</u>
Additions		
Contributions:		
Employers	\$ 2,431,150	\$ -
Plan members	841,763	-
Other systems and Commonwealth of Massachusetts	144,190	-
Other	<u>6,000</u>	<u>-</u>
Total Contributions	3,423,103	-
Investment Income (Loss):		
Interest and dividends	29,272	2,862
Appreciation (depreciation) in fair value of investments	(773,375)	-
Less: management fees	<u>(224,321)</u>	<u>-</u>
Net Investment Income (Loss)	<u>(968,424)</u>	<u>2,862</u>
Total Additions	2,454,679	2,862
Deductions		
Benefit payments to plan members, beneficiaries and other systems	3,570,849	-
Refunds to plan members	31,421	-
Transfers to other systems	151,139	-
Administrative expenses	125,582	-
Scholarships awarded	<u>-</u>	<u>1,650</u>
Total Deductions	<u>3,878,991</u>	<u>1,650</u>
Net Increase (Decrease)	(1,424,312)	1,212
Net position restricted for pensions and other purposes		
Beginning of Year	<u>43,253,310</u>	<u>123,526</u>
End of Year	<u>\$ 41,828,998</u>	<u>\$ 124,738</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 2019, 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 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 *DPW facility capital project fund*, which accounts for the construction of the Town's Department of Public Works facility building.

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 other post-employment benefits trust funds* are used to accumulate resources for retiree post-employment benefits.

- 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 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% (excluding new growth), unless an override is voted. The actual fiscal year 2019 tax levy reflected an excess capacity of \$3,389.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

H. 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

I. 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.

J. 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.

K. 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.

L. 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>Revenue</u>	<u>Expenditure</u>	<u>Other Financing Sources/Uses</u>
Revenues/expenditures (GAAP basis)	\$ 21,155,856	\$ 20,116,165	\$ -
Other financing source/use (GAAP basis)	-	-	(522,277)
Transfers in/out (GAAP basis)	-	-	233,063
Remove the effect of adding the Town's stabilization funds per GASB 54:			
Reverse the adjustment eliminating interfund transfers	-	-	222,516
Remove stabilization funds investment income	(26,107)	-	-
Adjust tax revenue to accrual basis	89,319	-	-
Reverse the effect of non-budgeted other financing use - refund to taxpayer	-	-	522,277
Reverse beginning of year appropriation carryforwards from expenditures	-	(544,708)	-
Add end of year appropriation carryforwards to expenditures	-	<u>768,734</u>	<u>-</u>
Budgetary Basis	<u>\$ 21,219,068</u>	<u>\$ 20,340,191</u>	<u>\$ 455,579</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2019:

Capital Project Fund	
Soil Stabilization	\$ (25,000)
Special Revenue Fund	
Montague City Road Flooding	<u>(33,147)</u>
	<u>\$ (58,147)</u>

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues and bond proceeds.

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 60% 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 10% of the capital and surplus of such bank or trust company.” The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2019, none of the Town’s bank balance of \$9,445,176 was exposed to custodial credit risk as uninsured and/or uncollateralized.

4. Investments - Town

The following is a summary of the Town’s investments as of June 30, 2019:

<u>Investment Type</u>	
Certificate of deposits	\$ 112,317
Corporate bonds	86,803
Corporate equities	31,265
U.S Treasury notes	<u>74,940</u>
Total Investments	<u>\$ 305,325</u>

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). The Town does not have a formal investment policy related to credit risk.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Rating as of Year End</u>			
		<u>AAA</u>	<u>A+</u>	<u>BBB+</u>	<u>Unrated</u>
Certificate of deposits	\$ 112,317	\$ -	\$ -	\$ -	\$ 112,317
Corporate bonds	<u>86,803</u>	<u>19,990</u>	<u>29,927</u>	<u>36,886</u>	<u>-</u>
Total	<u>\$ 199,120</u>	<u>\$ 19,990</u>	<u>\$ 29,927</u>	<u>\$ 36,886</u>	<u>\$ 112,317</u>

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 does not have a formal investment policy related to custodial credit risk.

As of June 30, 2019, \$118,068 of the Town's total investments were subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the Town's brokerage firm, which is also the counterparty to these securities as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Held by Counterparty</u>
Corporate bonds	\$ 86,803	\$ 86,803
Corporate equities	<u>31,265</u>	<u>31,265</u>
Total	<u>\$ 118,068</u>	<u>\$ 118,068</u>

C. Concentration of Credit Risk

The Town places no limit on the amount it may invest in any one issuer. The Town does not have a formal investment policy related to concentration of credit risk exposure.

Investments in any one issuer (other than U.S. Treasuries and government agency securities and mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
GSB Athletic Club CD	\$55,694	18.24%

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

Information about the sensitivity of the fair values of the Town’s investments to market interest rate fluctuations are as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Certificate of deposits	\$ 112,317	\$ -	\$ 112,317
Corporate bonds	86,803	86,803	-
U.S Treasury notes	<u>74,940</u>	<u>44,964</u>	<u>29,976</u>
Total	<u>\$ 274,060</u>	<u>\$ 131,767</u>	<u>\$ 142,293</u>

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 does not have a formal investment policy 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 and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

The Town has the following fair value measurements as of June 30, 2019:

<u>Investment Type</u>	<u>Amount</u>	Quotes prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Corporate bonds	\$ 86,803	\$ -	\$ 86,803	\$ -
Corporate equities	31,265	-	31,265	-
U.S Treasury notes	<u>74,940</u>	-	74,940	-
Total	<u>\$ 193,008</u>			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quote prices. Level 2 debt securities have non-proprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

5. Investments - OPEB Trust Fund

All of the OPEB Trust Fund assets are invested in the external (State) investment pool – State Retirees Benefits Trust Fund (SRBT).

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. State law employs the prudent person rule whereby investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The OPEB Trust Fund does not have formal investment policies related to credit risk.

All of the OPEB Trust Funds investments are exempt from credit risk disclosure as they are invested in SRBT.

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 OPEB Trust Fund does not have formal investment policies related to custodial credit risk.

All of the OPEB Trust Funds investments are exempt from custodial credit risk disclosure as they are invested in SRBT.

C. Concentration of Credit Risk

The OPEB Trust Fund places no limit on the amount the OPEB Trust Fund may invest in any one issuer. The OPEB Trust Fund does not have formal investment policies related to concentration of credit risk exposure.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

All of the OPEB Trust Funds investments are exempt from concentration of credit risk disclosure as they are invested in SRBT.

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 OPEB Trust Fund does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

All of the OPEB Trust Funds investments are exempt from interest rate risk disclosure as they are invested in SRBT.

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 OPEB Trust Fund does not have formal investment policies related to foreign currency risk.

F. Fair Value

The OPEB Trust Fund 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 and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The OPEB Plan's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The OPEB Trust Fund has the following fair value measurements as of June 30, 2019:

<u>Description</u>	<u>Value</u>
Investments measured at the net asset value (NAV):	
External investment pool	\$ <u>492,210</u>

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ <u>492,210</u>	\$ -	Monthly	30 days

6. Investments - Pension Trust Fund (The System)

All of the System's investments totaling \$41,019,596 are in an external (State) investment pool (PRIT)*.

**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.*

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. Massachusetts General Law, Chapter 32, Section 23, limits the investment of 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.

Due to their nature, none of the System's investments are subject to credit risk disclosure.

B. Custodial Credit Risk

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

The System's investments of \$41,019,596 are held in an external (State) investment pool (PRIT) which are exempt from the custodial risk disclosure.

Investments in PRIT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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 PRIT.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of December 31, 2018, the System did not have any investments subject to concentration of credit risk disclosure as any investment classifications exceeding 5% are exempt.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have formal investment policies limiting 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 System's investments to market interest rate fluctuations is not applicable as all of the System's 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 System does not have a formal investment policy related to foreign currency risk.

F. Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

The System has the following fair value measurements as of December 31, 2018:

<u>Description</u>	<u>Value</u>
Investments measured at the net asset value (NAV):	
External investment pool	\$ <u>41,019,596</u>

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ <u>41,019,596</u>	\$ -	Monthly	30 days

7. 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, 2019 consists of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Current Portion	Long- Term Portion
Real estate taxes	\$ 576,221	\$ (29,141)	\$ 547,080	\$ -
Personal property taxes	152,825	(2,509)	150,316	-
Tax liens	<u>258,075</u>	<u>(51,615)</u>	<u>-</u>	<u>206,460</u>
Total Property Taxes	<u>\$ 987,121</u>	<u>\$ (83,265)</u>	<u>\$ 697,396</u>	<u>\$ 206,460</u>
Motor vehicle excise	\$ 126,662	\$ (8,415)	\$ 118,247	\$ -
Boat excise	<u>1,025</u>	<u>-</u>	<u>1,025</u>	<u>-</u>
Total Excises	<u>\$ 127,687</u>	<u>\$ (8,415)</u>	<u>\$ 119,272</u>	<u>\$ -</u>

8. User Fee Receivables

Receivables for user charges at June 30, 2019 consist of the following:

	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Sewer	\$ <u>704,659</u>	\$ <u>(134,880)</u>	\$ <u>569,779</u>

9. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2019.

10. Interfund Fund Accounts

Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2019 balances in interfund receivable and payable accounts:

	Due From <u>Other Funds</u>	Due To <u>Other Funds</u>
General fund	\$ 37,207	\$ -
Capital project fund - non-major	-	25,000
Airport fund	-	<u>12,207</u>
Total	<u>\$ 37,207</u>	<u>\$ 37,207</u>

11. 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.

12. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Convert <u>CIP</u>	Ending <u>Balance</u>
Governmental Activities					
Capital assets, being depreciated:					
Buildings and improvements	\$ 24,732,281	\$ -	\$ -	\$ 2,905,647	\$ 27,637,928
Machinery, equipment, vehicles and furnishings	3,814,017	415,336	(139,423)	-	4,089,930
Infrastructure	<u>751,443</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>751,443</u>
Total Capital Assets, Being Depreciated	29,297,741	415,336	(139,423)	2,905,647	32,479,301
Less accumulated depreciation for:					
Buildings and improvements	(9,567,297)	(1,094,132)	-	-	(10,661,429)
Machinery, equipment, vehicles and furnishings	(2,600,898)	(306,452)	139,423	-	(2,767,927)
Infrastructure	<u>(311,304)</u>	<u>(28,822)</u>	<u>-</u>	<u>-</u>	<u>(340,126)</u>
Total Accumulated Depreciation	<u>(12,479,499)</u>	<u>(1,429,406)</u>	<u>139,423</u>	<u>-</u>	<u>(13,769,482)</u>
Total Capital Assets, Being Depreciated, Net	16,818,242	(1,014,070)	-	2,905,647	18,709,819
Capital assets, not being depreciated:					
Land	1,513,089	139,876	-	-	1,652,965
Construction in progress	<u>2,838,005</u>	<u>887,963</u>	<u>-</u>	<u>(2,905,647)</u>	<u>820,321</u>
Total Capital Assets, Not Being Depreciated	<u>4,351,094</u>	<u>1,027,839</u>	<u>-</u>	<u>(2,905,647)</u>	<u>2,473,286</u>
Governmental Activities Capital Assets, Net	<u>\$ 21,169,336</u>	<u>\$ 13,769</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,183,105</u>

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Convert <u>CIP</u>	Ending <u>Balance</u>
Business-Type Activities					
Capital assets, being depreciated:					
Buildings and improvements	\$ 6,608,342	\$ -	\$ -	\$ -	\$ 6,608,342
Machinery, equipment, vehicles and furnishings	79,465	-	-	-	79,465
Infrastructure	<u>15,030,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,030,075</u>
Total Capital Assets, Being Depreciated	21,717,882	-	-	-	21,717,882
Less accumulated depreciation for:					
Buildings and improvements	(4,975,103)	(159,417)	-	-	(5,134,520)
Machinery, equipment, vehicles and furnishings	(37,664)	(9,290)	-	-	(46,954)
Infrastructure	<u>(3,386,016)</u>	<u>(300,603)</u>	<u>-</u>	<u>-</u>	<u>(3,686,619)</u>
Total Accumulated Depreciation	<u>(8,398,783)</u>	<u>(469,310)</u>	<u>-</u>	<u>-</u>	<u>(8,868,093)</u>
Total Capital Assets, Being Depreciated, Net	13,319,099	(469,310)	-	-	12,849,789
Capital assets, not being depreciated:					
Land	145,835	-	-	-	145,835
Construction in progress	<u>69,826</u>	<u>32,618</u>	<u>-</u>	<u>-</u>	<u>102,444</u>
Total Capital Assets, Not Being Depreciated	<u>215,661</u>	<u>32,618</u>	<u>-</u>	<u>-</u>	<u>248,279</u>
Business-Type Activities Capital Assets, Net	<u>\$ 13,534,760</u>	<u>\$ (436,692)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,098,068</u>

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

Governmental Activities

General government	\$ 301,442
Public safety	193,803
Education	74,819
Public works	748,705
Culture and recreation	<u>110,637</u>
Total Governmental Activities	<u>\$ 1,429,406</u>

Business-Type Activities

Sewer	\$ <u>469,310</u>
Total Business-Type Activities	<u>\$ 469,310</u>

13. 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.

14. Warrants Payable and Accounts Payable

Warrants payable represent 2019 expenditures paid by July 15, 2019 as permitted by law. Accounts payable represents additional 2019 expenditures paid after July 15, 2018.

15. Tax Refunds Payable

This balance consists of a refund due to a taxpayer. This case was decided by the State Appellate Tax Board in August 2019. The current year property tax amount shown net of current year revenues, while the prior year's portion is reported as an other financing use.

16. Notes Payable

The Town did not have any short-term notes outstanding at June 30, 2019.

The following summarizes activity in short-term notes payable during fiscal year 2019:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 2,150,394	\$ -	\$ (2,150,394)	\$ -
Revenue anticipation	-	2,000,000	(2,000,000)	-
Sewer and other water pollution control facilities (MCWT)	<u>1,634,060</u>	<u>-</u>	<u>(1,634,060)</u>	<u>-</u>
Total	<u>\$ 3,784,454</u>	<u>\$ 2,000,000</u>	<u>\$ (5,784,454)</u>	<u>\$ -</u>

17. 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, 2019:

<u>Fiscal Year</u>	<u>Capital Lease</u>
2020	\$ 46,180
2021	46,179
2022	<u>46,179</u>
Total Minimum Lease Payments	138,538
Less amounts representing interest	<u>(11,091)</u>
Present Value of Minimum Lease Payments	<u>\$ 127,447</u>

18. Long-Term Debt

A. General Obligation Bonds and Notes

The Town issues general obligation bonds and notes 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, 2019</u>
Bonds Payable			
Landfill	08/15/19	5.25%	\$ 35,000
Colle Opera House	06/15/22	4.25%	30,000
Municipal purpose	11/01/26	4.11%	180,000
Municipal purpose	11/15/27	4.50%	3,040,000
Combined sewer overflow (MCWT)	07/15/27	2.00%	172,054
Soil Stabilization	06/30/31	2.75 - 5.0%	72,000
Skatepark	06/30/31	2.75 - 5.0%	84,000
FRCOG Brownfields	06/30/33	2.50%	97,493
Municipal purpose	05/15/34	3.00%	75,000
Combined sewer overflow (MCWT)	01/15/39	2.41%	546,708
DPW Facility	06/30/44	2.75 - 5.0%	2,503,000
USDA	11/01/45	4.38%	<u>349,102</u>
Total Bonds Payable			7,184,357
Notes Payable*			
Sheffield Parking Lot and Roof	05/22/21	2.15%	<u>40,000</u>
Total Notes Payable			<u>40,000</u>
Total Governmental Activities			<u>\$ 7,224,357</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 2019 and due in fiscal year 2020.

<u>Business-Type Activities</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of June 30, 2019</u>
Sewer - property acquisition	06/15/22	4.34%	\$ 15,000
Sewer - multiple purpose	06/15/23	4.42%	105,000
Sewer - multiple purpose	11/01/26	4.11%	89,729
Combined sewer overflow (MCWT)	07/15/27	2.00%	258,080
Sewer - multiple purpose	05/15/34	3.00%	1,254,998
Combined sewer overflow (MCWT)	01/15/39	2.41%	820,062
MCWT	06/30/44	2.75 - 5.0%	1,583,047
Storm Drains	06/30/44	2.75 - 5.0%	644,000
Pump Station	06/30/44	2.75 - 5.0%	393,000
Sewer Lines	06/30/44	2.75 - 5.0%	994,000
USDA	11/01/45	4.38%	523,656
USDA	09/21/47	4.13%	862,602
Total Business-Type Activities			\$ <u>7,543,174</u>

B. Future Debt Service

The annual payments to retire all general obligation bonds and long-term notes outstanding as of June 30, 2019 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 483,907	\$ 291,429	\$ 775,336
2021	492,327	241,419	733,746
2022	491,787	221,730	713,517
2023	494,286	201,805	696,091
2024	507,828	181,839	689,667
2025 - 2029	2,362,294	599,518	2,961,812
2030 - 2034	801,415	334,196	1,135,611
2035 and thereafter	<u>1,590,513</u>	<u>295,917</u>	<u>1,886,430</u>
Total	\$ <u>7,224,357</u>	\$ <u>2,367,853</u>	\$ <u>9,592,210</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 302,010	\$ 262,631	\$ 564,641
2021	328,971	228,454	557,425
2022	335,040	217,483	552,523
2023	338,223	206,201	544,424
2024	325,525	194,878	520,403
2025 - 2029	1,673,999	824,198	2,498,197
2030 - 2034	1,810,572	563,020	2,373,592
2035 and thereafter	<u>2,428,834</u>	<u>457,447</u>	<u>2,886,281</u>
Total	\$ <u>7,543,174</u>	\$ <u>2,954,312</u>	\$ <u>10,497,486</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2019, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Less Current Portion	Equals Long-Term Portion
Governmental Activities						
Notes payable	\$ 60,000	\$ -	\$ (20,000)	\$ 40,000	\$ (20,000)	20,000
Bonds payable	4,934,880	2,659,000	(409,525)	7,184,355	(463,907)	6,720,450
Net pension liability	4,492,099	1,618,114	-	6,110,213	-	6,110,213
Net OPEB liability	13,382,655	68,053	-	13,450,708	-	13,450,708
Other:						
Landfill closure	150,000	-	(12,500)	137,500	(12,500)	125,000
Compensated absences	307,911	-	(25,915)	281,996	-	281,996
Capital lease	75,857	115,488	(63,898)	127,447	(40,712)	86,735
Subtotal Other	533,768	115,488	(102,313)	546,943	(53,212)	493,731
Totals	\$ 23,403,402	\$ 4,460,655	\$ (531,838)	\$ 27,332,219	\$ (537,119)	\$ 26,795,102
Business-Type Activities						
Bonds payable	\$ 4,127,612	\$ 3,614,047	\$ (198,485)	\$ 7,543,174	\$ (302,010)	\$ 7,241,164
Net pension liability	466,615	168,081	-	634,696	-	634,696
Net OPEB liability	1,486,962	562,733	-	2,049,695	-	2,049,695
Other:						
Compensated absences	11,474	83	-	11,557	-	11,557
Totals	\$ 6,092,663	\$ 4,344,944	\$ (198,485)	\$ 10,239,122	\$ (302,010)	\$ 9,937,112

D. Long-Term Debt Supporting Governmental and Business-Type Activities

General obligation bonds, issued by the Town for various municipal projects are approved by Town Meeting and repaid with revenues recorded in the general fund and user fees recorded in enterprise fund. All other long-term debt is repaid from the funds that the cost related to, primarily the general fund and enterprise fund.

E. Overlapping Debt

The Town is a member community of a regional school district, which is 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 the regional school district and are funded through assessments to the Town. The following summarizes the debt of the regional school district 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	\$ 735,000	92.60%	\$ 680,610
Sheffield School Windows	180,000	100.00%	180,000
Total	\$ 915,000		\$ 860,610

19. Landfill Closure and Post Closure 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 \$137,500 reported as landfill post closure care liability at June 30, 2019 represents the remaining estimated post closure maintenance costs. These amounts are based on what it would cost to perform all post closure care in 2019. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

20. 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.

21. 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>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General fund	\$ -	\$ (233,063)
Airport fund	12,443	-
Business-Type Funds		
Sewer fund	<u>220,620</u>	<u>-</u>
Grand Total	<u>\$ 233,063</u>	<u>\$ (233,063)</u>

22. 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 has 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, 2019:

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, projects funded by bond issuances, 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, 2019:

	General Fund	Airport Fund	DPF Facility Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 65,816	\$ 65,816
Total Nonexpendable	-	-	-	65,816	65,816
Restricted					
Special revenue funds	-	27,382	-	763,869	791,251
Bonded projects	-	-	1,943,271	-	1,943,271
Expendable permanent funds	-	-	-	37,782	37,782
Total Restricted	-	27,382	1,943,271	801,651	2,772,304
Committed					
Special articles	768,734	-	-	-	768,734
Stabilization funds for specific purposes*	263,116	-	-	-	263,116
Capital project funds funded by general fund appropriation	-	-	-	15,360	15,360
Town set-asides	-	-	-	51,813	51,813
Total Committed	1,031,850	-	-	67,173	1,099,023
Assigned					
Reserved for expenditures	470,044	-	-	-	470,044
Total Assigned	470,044	-	-	-	470,044
Unassigned					
General fund	2,603,047	-	-	-	2,603,047
General stabilization fund*	991,701	-	-	-	991,701
Deficit funds	-	-	-	(58,147)	(58,147)
Total Unassigned	3,594,748	-	-	(58,147)	3,536,601
Total Fund Balance	\$ 5,096,642	\$ 27,382	\$ 1,943,271	\$ 876,493	\$ 7,943,788

* 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.

23. Montague Contributory Retirement System

The Town follows the provisions of 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.

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.

Participant Retirement Benefits

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.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-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%, 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.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- Group 1 – General employees, including clerical, administrative, technical, and all other employees not otherwise classified.
- Group 2 – Certain specified hazardous duty positions.
- Group 4 – Police officers, firefighters, and other specified hazardous positions.

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.

Methods of Payment

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member’s designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

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%.

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, 2019 was \$1,006,361, 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, 2019, the Town reported a liability of approximately \$6.74 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, 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, 2019, the Town's proportion was 51.48%.

For the year ended June 30, 2019, the Town recognized pension expense of \$1,407,463. In addition, the Town reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Pension related		
Differences between expected and actual experience	\$ 70,528	\$ -
Net difference between projected and actual investment earnings	878,249	-
Changes in assumptions	1,000,770	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>(53,855)</u>
Total	<u>\$ 1,949,547</u>	<u>\$ (53,855)</u>

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

Year ended June 30:

2020	\$ 695,893
2021	452,563
2022	348,027
2023	<u>399,209</u>
Total	<u>\$ 1,895,692</u>

D. Actuarial Assumptions

The total pension liability in the latest actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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).

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.

E. 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>
Domestic equity	17.00%	1.04%
International equity	14.90%	1.02%
Emerging markets equity	6.00%	0.56%
Core fixed income	13.00%	0.98%
Value-added fixed income	8.30%	0.56%
Private equity	12.10%	1.21%
Real estate	9.40%	0.59%
Timberland	4.10%	0.26%
Hedge funds and portfolio completion	14.20%	0.82%
Liquidating portfolios	0.30%	0.00%
Overlay	<u>0.90%</u>	0.00%
Total	<u>100.20% *</u>	

* Totals may not add due to rounding

F. 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.

G. 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%, 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:

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$9,806,425	\$6,474,909	\$4,146,714

H. Pension Plan Fiduciary Net Position

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

24. Other Post-Employment Benefits (GASB 74 and GASB 75)

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 a single-employer defined benefit OPEB Trust Fund to provide funding for future employee health care costs. The OPEB Trust Fund does not issue a stand-alone financial report.

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, 2019.

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, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	67
Active employees	<u>72</u>
Total	<u>139</u>

Funding Policy

The Town's funding policy includes financing the implicit subsidy on a pay-as-you-go basis, as required by statute. Additional contributions are based on actuarially determined amounts.

B. Investments

All of the OPEB Trust Fund assets are invested in the external (State) investment pool – State Retirees Benefits Trust Fund (SRBT).

Rate of return. For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 6.6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

The net 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%
Municipal bond rate	2.79%
Discount rate	2.79%
Healthcare cost trend rates	8% decreasing to an ultimate rate of 5% as of 2025 and later years
Retirees' share of benefit-related costs	20%
Participation rate	100% of eligible retirees

Mortality rates were based on RP-2014 with MP-2016 projected.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of June 30, 2018.

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, 2019 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>	

D. 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 municipal bond rate of 2.79% (based on index provided by S&P Municipal Bond 20 Year High Grade Bond index as of June 30, 2019) was used.

E. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2019, were as follows:

Total OPEB liability	\$ 15,992,613
Plan fiduciary net position	<u>(492,210)</u>
Net OPEB Liability	<u>\$ 15,500,403</u>

Plan fiduciary net position as a percentage of the total OPEB liability	3.08%
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The fiduciary net position has been determined on the same basis used by the OPEB Plan. For this purpose, the Plan recognizes benefit payments when due and payable.

F. Changes in the Net OPEB Liability

The following summarizes the changes in the net OPEB liability for the past year:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances, beginning of year	\$ 16,191,334	\$ 412,938	\$ 15,778,396
Changes for the year:			
Service cost	587,454	-	587,454
Interest	474,812	-	474,812
Difference between expected and actual experience	(1,187,090)	-	(1,187,090)
Changes in assumptions	442,253	-	442,253
Contributions - employer	-	566,150	(566,150)
Net investment income	-	29,272	(29,272)
Benefit payments	<u>(516,150)</u>	<u>(516,150)</u>	<u>-</u>
Net Changes	<u>(198,721)</u>	<u>79,272</u>	<u>(277,993)</u>
Balances, End of Year	<u>\$ 15,992,613</u>	<u>\$ 492,210</u>	<u>\$ 15,500,403</u>

Difference between expected and actual experience is due to the change in approach from prior measurement date to traditional approach.

Change in assumptions and other inputs reflect a change in the discount rate from 3.13% in 2018 to 2.79% in 2019.

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

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

1% Decrease (1.79%)	Current Discount Rate (2.79%)	1% Increase (3.79%)
\$17,827,189	\$15,500,403	\$13,173,619

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

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

1% Decrease <u>(7.0%)</u>	Current Healthcare Cost Trend Rates <u>(8.0%)</u>	1% Increase <u>(9.0%)</u>
\$12,756,554	\$15,500,403	\$18,774,769

I. OPEB Expense and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to OPEB

For the year ended June 30, 2019, the Town recognized an OPEB expense of \$1,862,092. At June 30, 2019, the Town reported deferred outflows and deferred (inflows) of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Difference between expected and actual experience	\$ -	\$ (1,038,704)
Change in assumptions	386,971	-
Net difference between projected and actual OPEB investment earnings	<u>-</u>	<u>(13,573)</u>
Total	\$ <u>386,971</u>	\$ <u>(1,052,277)</u>

Amount reported as deferred outflows and (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	
2020	\$ (96,497)
2021	(96,497)
2022	(96,497)
2023	(96,497)
2024	(93,104)
Thereafter	<u>(186,214)</u>
Total	\$ <u>(665,306)</u>

25. Consolidation of Pension and OPEB Trust Funds

The Montague Contributory Retirement System and the Montague OPEB Trust Fund are presented in a single column in the accompanying fiduciary fund financial statements. Details of the financial position and changes in net position are as follows:

	Pension Trust Fund <u>(December 31, 2018)</u>	Other Post-Employment Benefit <u>Trust Fund</u>	Pension and OPEB <u>Trust Funds</u>
Assets			
Cash and short-term investments	\$ 300,531	\$ -	\$ 300,531
Investments:			
External investment pools	41,019,596	492,210	41,511,806
Accounts receivable	<u>16,661</u>	<u>-</u>	<u>16,661</u>
Total Assets	41,336,788	492,210	41,828,998
Net Position			
Restricted for pension purposes	41,336,788	-	41,336,788
Restricted for OPEB purposes	<u>-</u>	<u>492,210</u>	<u>492,210</u>
Total Net Position	<u>\$ 41,336,788</u>	<u>\$ 492,210</u>	<u>\$ 41,828,998</u>

	Pension Trust Fund (year ended <u>December 31, 2018</u>)	Other Post-Employment Benefits <u>Trust Fund</u>	Pension and OPEB <u>Trust Funds</u>
Additions			
Contributions:			
Employers	\$ 1,865,000	\$ 566,150	\$ 2,431,150
Plan members	841,763	-	841,763
Other systems and Commonwealth of Massachusetts	144,190	-	144,190
Other	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total Contributions	2,856,953	566,150	3,423,103
Investment Income (Loss):			
Interest and dividends	-	29,272	29,272
Appreciation (depreciation) in fair value of investments	(773,375)	-	(773,375)
Less: management fees	<u>(224,321)</u>	<u>-</u>	<u>(224,321)</u>
Net Investment Income (Loss)	<u>(997,696)</u>	<u>29,272</u>	<u>(968,424)</u>
Total Additions	1,859,257	595,422	2,454,679
Deductions			
Benefit payments to plan members, beneficiaries and other systems	3,054,699	516,150	3,570,849
Refunds to plan members	31,421	-	31,421
Transfers to other systems	151,139	-	151,139
Administrative expenses	<u>125,582</u>	<u>-</u>	<u>125,582</u>
Total Deductions	<u>3,362,841</u>	<u>516,150</u>	<u>3,878,991</u>
Net Increase (Decrease)	(1,503,584)	79,272	(1,424,312)
Net position restricted for pensions and other purposes			
Beginning of Year	<u>42,840,372</u>	<u>412,938</u>	<u>43,253,310</u>
End of Year	<u>\$ 41,336,788</u>	<u>\$ 492,210</u>	<u>\$ 41,828,998</u>

26. Subsequent Events

Debt

Subsequent to June 30, 2019, 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	1.95%	08/07/19	10/17/19

27. Commitments and Contingencies

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

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

Self-Insurance – The Town participates in the Hampshire County Group Insurance Trust to provide health insurance coverage to its employees. The Trust is funded by member assessments, which are calculated in a manner similar to commercial insurance premiums. As of June 30, 2019 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, 2019, 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 \$24 million.

Colle Building Lease – In April 2019 The Town entered into a lease agreement with Center for Responsive Schools, Inc. whereby the Town leased land, a building and improvements at 85 Avenue A in Turners Falls, Massachusetts known as the Colle Building.

The term of the agreement is 3 years commencing on June 1, 2019 and ending on May 31, 2022. The Center for Responsive Schools, Inc. shall pay rent at the following rate, \$8,513 per month for year 1 (annual total of \$102,156), \$8,598 per month for year 2 (annual total of \$103,176), and monthly rent of \$8,686 per month for year 3 (annual total of \$104,232).

28. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 84, *Fiduciary Activities*, effective for the Town beginning with its fiscal year ending June 30, 2020. This statement establishes guidance on how to address the

categorization of fiduciary activities for financial reporting and how fiduciary activities are to be reported, and may require reclassification of certain funds.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 87, *Leases*, effective for the Town beginning with its fiscal year ending June 30, 2021. This statement establishes new reporting and disclosure requirements, including the recording of various operating leases in the financial statements.

TOWN OF MONTAGUE, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2019

(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, 2019	December 31, 2018	51.48%	\$6,745	\$ 3,790	177.97%	75.93%
June 30, 2018	December 31, 2017	51.94%	\$4,959	\$ 3,824	129.68%	81.78%
June 30, 2017	December 31, 2016	52.36%	\$5,715	\$ 3,641	156.96%	77.20%
June 30, 2016	December 31, 2015	52.19%	\$5,375	\$ 3,354	160.26%	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
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)
 JUNE 30, 2019
 (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, 2019	December 31, 2018	\$1,006	\$1,006	-	\$3,790	26.54%
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.

See Independent Auditors' Report.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 587	\$ 567	\$ 528
Interest on unfunded liability - time value of money	475	476	457
Difference between expected and actual experience	(1,187)	420	-
Change in assumptions	442	-	-
Benefit payments, including refunds of member contributions	<u>(516)</u>	<u>(469)</u>	<u>(455)</u>
Net Change in Total OPEB Liability	(199)	994	530
Total OPEB Liability - Beginning	<u>16,191</u>	<u>15,197</u>	<u>14,667</u>
Total OPEB Liability - Ending (a)	<u>\$ 15,992</u>	<u>\$ 16,191</u>	<u>\$ 15,197</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 566	\$ 519	\$ 510
Net investment income	29	36	22
Benefit payments, including refunds of member contributions	<u>(516)</u>	<u>(469)</u>	<u>(455)</u>
Net Change in Plan Fiduciary Net Position	79	86	77
Plan Fiduciary Net Position - Beginning	<u>413</u>	<u>327</u>	<u>250</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 492</u>	<u>\$ 413</u>	<u>\$ 327</u>
Net OPEB Liability (Asset) - Ending (a-b)	<u>\$ 15,500</u>	<u>\$ 15,778</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

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS (GASB 74 AND 75)

(Unaudited)

(Amounts expressed in thousands)

Schedule of Net OPEB Liability	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 15,992	\$ 16,191	\$ 15,197
Plan fiduciary net position	<u>(492)</u>	<u>(413)</u>	<u>(327)</u>
Net OPEB Liability	<u>\$ 15,500</u>	<u>\$ 15,778</u>	<u>\$ 14,870</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 3.08%	 2.55%	 2.15%
 Covered employee payroll	 \$ 3,894	 \$ 3,650	 \$ 3,650
 Participating employer net OPEB liability as a percentage of covered employee payroll	 398.05%	 432.27%	 407.40%
 Schedule of Contributions	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>
Actuarially determined contribution	\$ 1,646	\$ 1,032	\$ 985
Contributions in relation to the actuarially determined contribution	<u>(566)</u>	<u>(519)</u>	<u>(510)</u>
Contribution Deficiency (Excess)	<u>\$ 1,080</u>	<u>\$ 513</u>	<u>\$ 475</u>
 Covered employee payroll	 \$ 3,894	 \$ 3,650	 \$ 3,650
 Contributions as a percentage of covered employee payroll	 14.54%	 14.22%	 13.97%
 Schedule of Investment Returns	 <u>2019</u>	 <u>2018</u>	 <u>2017</u>
Annual money weighted rate of return, net of investment expense	6.60%	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.