

**TOWN OF MONTAGUE, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2016

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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, 2016, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2015), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller

General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Montague, Massachusetts, as of June 30, 2016, (except for the Montague Contributory Retirement System which is as of and for the year ended December 31, 2015) 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, the Schedule of OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2017 on our consideration of the Town of Montague's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

*Melanson Heath*

January 9, 2017

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

As management of the Town of Montague, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016.

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

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

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

The statement of net position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the 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 enterprise fund and airport enterprise fund 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 funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, the enterprise funds are used to account for sewer and airport operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for sewer and airport operations, which are both considered to be a major funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

**B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$16,830,271 (i.e., net position), a change of \$2,156,925 in comparison to the restated prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,502,116, a change of \$142,020 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,760,372, a change of \$(78,218) in comparison with the prior year.
- Total long-term debt (i.e., long-term notes and bonds payable) at the close of the current fiscal year was \$10,457,849, a change of \$(694,707) in comparison to the prior year.

**C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

**NET POSITION**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015 Restated</u>	<u>2016</u>	<u>2015 Restated</u>
Current and other assets	\$ 6,216,467	\$ 5,749,333	\$ 1,004,249	\$ 1,278,688	\$ 7,220,716	\$ 7,028,021
Deferred outflows	938,919	29,764	110,622	3,761	1,049,541	33,525
Capital assets	<u>12,398,942</u>	<u>11,623,626</u>	<u>22,314,917</u>	<u>18,869,349</u>	<u>34,713,859</u>	<u>30,492,975</u>
Total assets and deferred outflows	19,554,328	17,402,723	23,429,788	20,151,798	42,984,116	37,554,521
Long-term liabilities outstanding	15,855,492	15,026,765	5,804,752	5,982,423	21,660,244	21,009,188
Deferred inflows	41,480	-	4,887	-	46,367	-
Other liabilities	<u>826,269</u>	<u>624,962</u>	<u>3,620,965</u>	<u>1,247,025</u>	<u>4,447,234</u>	<u>1,871,987</u>
Total liabilities and deferred inflows	16,723,241	15,651,727	9,430,604	7,229,448	26,153,845	22,881,175
Net position:						
Net investment in capital assets	6,492,300	5,484,048	15,207,719	13,334,170	21,700,019	18,818,218
Restricted	905,407	819,408	-	-	905,407	819,408
Unrestricted	<u>(4,566,620)</u>	<u>(4,552,460)</u>	<u>(1,208,535)</u>	<u>(411,820)</u>	<u>(5,775,155)</u>	<u>(4,964,280)</u>
Total net position	\$ <u>2,831,087</u>	\$ <u>1,750,996</u>	\$ <u>13,999,184</u>	\$ <u>12,922,350</u>	\$ <u>16,830,271</u>	\$ <u>14,673,346</u>

CHANGES IN NET POSITION

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u> <u>Restated</u>	<u>2016</u>	<u>2015</u> <u>Restated</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,049,174	\$ 837,052	\$ 2,070,288	\$ 1,905,699	\$ 3,119,462	\$ 2,742,751
Operating grants and contributions	1,998,385	827,004	-	-	1,998,385	827,004
Capital grants and contributions	450,787	588,859	1,558,805	888,266	2,009,592	1,477,125
General revenues:						
Property taxes	15,207,377	14,584,140	-	-	15,207,377	14,584,140
Excises	750,797	723,276	-	-	750,797	723,276
Penalties, interest and other taxes	115,275	119,445	-	-	115,275	119,445
Grants and contributions not restricted	1,494,877	1,449,470	-	-	1,494,877	1,449,470
Investment income	12,485	9,386	185	1,898	12,670	11,284
Other	91,096	161,225	-	-	91,096	161,225
Total revenues	<u>21,170,253</u>	<u>19,299,857</u>	<u>3,629,278</u>	<u>2,795,863</u>	<u>24,799,531</u>	<u>22,095,720</u>
Expenses:						
General government	1,959,860	1,895,608	-	-	1,959,860	1,895,608
Public safety	2,280,475	2,149,342	-	-	2,280,475	2,149,342
Education	9,402,041	9,071,773	-	-	9,402,041	9,071,773
Public works	2,152,678	2,436,760	-	-	2,152,678	2,436,760
Human services	337,944	341,925	-	-	337,944	341,925
Culture and recreation	737,917	686,547	-	-	737,917	686,547
Employee benefits	2,325,294	2,233,827	-	-	2,325,294	2,233,827
Interest	237,668	250,821	-	-	237,668	250,821
Intergovernmental	170,234	146,411	-	-	170,234	146,411
Sewer operations	-	-	2,341,405	2,472,175	2,341,405	2,472,175
Airport operations	-	-	447,090	423,754	447,090	423,754
Total expenses	<u>19,604,111</u>	<u>19,213,014</u>	<u>2,788,495</u>	<u>2,895,929</u>	<u>22,392,606</u>	<u>22,108,943</u>
Change in net position before transfers	1,566,142	86,843	840,783	(100,066)	2,406,925	(13,223)
Transfers in (out)	<u>(486,051)</u>	<u>(230,267)</u>	<u>236,051</u>	<u>230,267</u>	<u>(250,000)</u>	<u>-</u>
Change in net position	1,080,091	(143,424)	1,076,834	130,201	2,156,925	(13,223)
Net position - beginning of year, restated	<u>1,750,996</u>	<u>1,894,420</u>	<u>12,922,350</u>	<u>12,792,149</u>	<u>14,673,346</u>	<u>14,686,569</u>
Net position - end of year	<u>\$ 2,831,087</u>	<u>\$ 1,750,996</u>	<u>\$ 13,999,184</u>	<u>\$ 12,922,350</u>	<u>\$ 16,830,271</u>	<u>\$ 14,673,346</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 \$16,830,271, a change of \$2,156,925 from the prior year.

The largest portion of net position, \$21,700,019, 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, \$905,407, represents resources that are subject to external restrictions on how they may be used. The remaining balances of unrestricted net position are deficits of \$(4,566,620) (governmental) and \$(1,208,535) (business-type).

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$1,080,091. Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 236,391
State and local revenues over budget	323,898
Budgetary appropriations unspent by departments	394,034
Use of free cash (fund balance) as a funding source for non-recurring items	(642,250)
Difference between current year encumbrances to be spent in the subsequent year and prior year encumbrances spent in the current year	63,041
Change in Stabilization funds	(121,893)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	(111,201)
Depreciation expense in excess of principal debt service	(346,577)
Capital assets purchased from taxation and grants	1,615,814
Change in net OPEB obligation	(477,777)
Change in net pension liability, net of deferrals	26,734
Other timing differences	<u>119,877</u>
Total	<u>\$ 1,080,091</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$1,076,834. Key elements of this change are as follows:

Sewer fund expenditures in excess of revenues	\$ (271,323)
Airport fund revenues in excess of expenditures	1,112,106
Transfers from general fund	<u>236,051</u>
Total	<u>\$ 1,076,834</u>

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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$4,502,116, a change of \$142,020 in comparison with the prior year. Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 236,391
State and local revenues over budget	323,898
Budgetary appropriations unspent by departments	394,034
Use of free cash (fund balance) as a funding source for non-recurring items	(642,250)
Difference between current year encumbrances to be spent in the subsequent year and prior year encumbrances spent in the current year	63,041
Change in Stabilization funds	(121,893)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	<u>(111,201)</u>
Total	<u>\$ 142,020</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 \$2,760,372 while total fund balance was \$3,747,036. 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>2016</u>	<u>2015</u>	<u>Change</u>	<u>% of Total 2016 General Fund Expenditures</u>
Unassigned fund balance <sup>1</sup>	\$ 2,760,372	\$ 2,838,590	\$ (78,218)	15.6%
Total fund balance	3,747,036	3,493,815	253,221	21.2%

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

The total fund balance of the general fund changed by \$253,221 during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 236,391
State and local revenues over budget	323,898
Budgetary appropriations unspent by departments	394,034
Use of free cash (fund balance) as a funding source for non-recurring items	(642,250)
Difference between current year encumbrances to be spent in the subsequent year and prior year encumbrances spent in the current year	63,041
Change in Stabilization funds	<u>(121,893)</u>
Total	<u>\$ 253,221</u>

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
General stabilization	\$ 882,403	\$ 913,066	\$ (30,663)
Capital stabilization	218,785	310,030	(91,245)
Franklin County Technical School stabilization	49,569	49,554	15
Gill-Montague Regional School District stabilization	<u>44</u>	<u>44</u>	<u>-</u>
Total Stabilization funds	<u>\$ 1,150,801</u>	<u>\$ 1,272,694</u>	<u>\$ (121,893)</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 \$(1,208,535), a change of \$(796,715) in comparison with the restated prior year.

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

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

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$53,000. Reasons for these amendments include:

- \$26,000 increase in police budget appropriation.
- \$12,500 purchase of compactor for cardboard.
- \$8,000 other increases.
- \$6,500 purchase of software and database package.

Of this increase, \$40,500 was funded through the use of free cash and \$12,500 was transferred from stabilization fund.

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$34,713,859 (net of accumulated depreciation), a change of \$4,220,884 from the prior year. 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:

- \$ (772,172) depreciation expense – governmental activities.
- \$ (398,583) depreciation expense – sewer fund.
- \$ (402,409) depreciation expense – airport fund.
- \$ (68,326) capital asset disposals.
- \$ 40,936 purchase of library books.
- \$ 39,047 purchase of police vehicle.
- \$ 245,451 purchase of public works vehicles and equipment.
- \$ 322,620 soil stabilization project.
- \$ 391,789 skateboard park project.
- \$ 43,791 foreclosed properties.
- \$ 21,760 construction in progress – Sheffield School boiler.
- \$ 510,420 streets, sidewalks and guardrails.
- \$ 1,739,573 construction in progress – pump station repairs and sewer line replacement.
- \$ 2,506,987 construction in progress – airport runway replacement.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$10,357,849, all of which was backed by the full faith and credit of the government.

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

## **REQUESTS FOR INFORMATION**

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

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

## TOWN OF MONTAGUE, MASSACHUSETTS

## STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 4,870,773	\$ 699,441	\$ 5,570,214
Receivables, net of allowance for uncollectibles:			
Property taxes	494,084	-	494,084
Excises	77,389	-	77,389
User fees	-	252,276	252,276
Intergovernmental	334,876	52,532	387,408
Departmental and other	148,743	-	148,743
Other assets	81,831	-	81,831
Noncurrent:			
Tax liens, net of allowance for uncollectible	208,771	-	208,771
Land and construction in progress	1,669,565	4,473,701	6,143,266
Capital assets, net of accumulated depreciation	10,729,377	17,841,216	28,570,593
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>938,919</u>	<u>110,622</u>	<u>1,049,541</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>19,554,328</b>	<b>23,429,788</b>	<b>42,984,116</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	241,061	44,450	285,511
Accounts payable	-	1,019,088	1,019,088
Accrued payroll and withholdings	95,301	20,339	115,640
Accrued interest payable	-	61,308	61,308
Notes payable	323,844	2,475,780	2,799,624
Intergovernmental payable	84,018	-	84,018
Other liabilities	82,045	-	82,045
Current portion of long-term liabilities:			
Notes payable	20,000	-	20,000
Bonds payable	416,869	273,468	690,337
Capital lease	41,388	-	41,388
Landfill closure	12,500	-	12,500
Noncurrent:			
Notes payable, net of current portion	80,000	-	80,000
Bonds payable, net of current portion	5,338,058	4,329,454	9,667,512
Landfill closure, net of current portion	162,500	-	162,500
Accrued compensated absences	273,041	17,917	290,958
Net OPEB obligation	4,702,617	617,383	5,320,000
Net pension liability	4,808,519	566,530	5,375,049
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>41,480</u>	<u>4,887</u>	<u>46,367</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>16,723,241</b>	<b>9,430,604</b>	<b>26,153,845</b>
<b>NET POSITION</b>			
Net investment in capital assets	6,492,300	15,207,719	21,700,019
Restricted for:			
Grants and other statutory restrictions	812,462	-	812,462
Permanent funds:			
Nonexpendable	65,440	-	65,440
Expendable	27,505	-	27,505
Unrestricted	<u>(4,566,620)</u>	<u>(1,208,535)</u>	<u>(5,775,155)</u>
<b>TOTAL NET POSITION</b>	<b>\$ <u>2,831,087</u></b>	<b>\$ <u>13,999,184</u></b>	<b>\$ <u>16,830,271</u></b>

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

TOWN OF MONTAGUE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 1,959,860	\$ 88,731	\$ 1,141,709	\$ 29,820	\$ (699,600)	\$ -	\$ (699,600)
Public safety	2,280,475	484,724	72,005	-	(1,723,746)	-	(1,723,746)
Education	9,402,041	-	44,183	-	(9,357,858)	-	(9,357,858)
Public works	2,152,678	246,449	13,304	420,967	(1,471,958)	-	(1,471,958)
Health and human services	337,944	30,506	310,465	-	3,027	-	3,027
Culture and recreation	737,917	198,764	416,719	-	(122,434)	-	(122,434)
Employee benefits	2,325,294	-	-	-	(2,325,294)	-	(2,325,294)
Interest	237,668	-	-	-	(237,668)	-	(237,668)
Intergovernmental	170,234	-	-	-	(170,234)	-	(170,234)
Total Governmental Activities	19,604,111	1,049,174	1,998,385	450,787	(16,105,765)	-	(16,105,765)
<b>Business-Type Activities:</b>							
Sewer operations	2,341,405	2,037,907	-	32,086	-	(271,412)	(271,412)
Airport operations	447,090	32,381	-	1,526,719	-	1,112,010	1,112,010
Total Business-Type Activities	2,788,495	2,070,288	-	1,558,805	-	840,598	840,598
Total All Activities	\$ 22,392,606	\$ 3,119,462	\$ 1,998,385	\$ 2,009,592	(16,105,765)	840,598	(15,265,167)
<b>General Revenues and Transfers:</b>							
Property taxes					15,207,377	-	15,207,377
Excises					750,797	-	750,797
Penalties, interest and other taxes					115,275	-	115,275
Grants and contributions not restricted to specific programs					1,494,877	-	1,494,877
Investment income					12,485	185	12,670
Miscellaneous					91,096	-	91,096
Transfers, net					(486,051)	236,051	(250,000)
Total general revenues and transfers					17,185,856	236,236	17,422,092
Change in Net Position					1,080,091	1,076,834	2,156,925
<b>Net Position:</b>							
Beginning of year, as restated					1,750,996	12,922,350	14,673,346
End of year					\$ 2,831,087	\$ 13,999,184	\$ 16,830,271

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

TOWN OF MONTAGUE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 3,982,071	\$ 888,702	\$ 4,870,773
Receivables:			
Property taxes	783,834	-	783,834
Excises	79,318	-	79,318
Intergovernmental	34,071	300,805	334,876
Departmental and other	108,310	40,433	148,743
Other assets	81,831	-	81,831
	<u>5,069,435</u>	<u>1,229,940</u>	<u>6,299,375</u>
TOTAL ASSETS	5,069,435	1,229,940	6,299,375
<b>LIABILITIES</b>			
Warrants payable	103,758	137,303	241,061
Accrued payroll and withholdings	91,172	4,129	95,301
Notes payable	-	323,844	323,844
Intergovernmental payable	84,018	-	84,018
Other liabilities	72,461	9,584	82,045
	<u>351,409</u>	<u>474,860</u>	<u>826,269</u>
TOTAL LIABILITIES	351,409	474,860	826,269
<b>DEFERRED INFLOWS OF RESOURCES</b>	970,990	-	970,990
<b>FUND BALANCES</b>			
Nonspendable	-	65,440	65,440
Restricted	-	789,991	789,991
Committed	736,664	77,236	813,900
Assigned	250,000	-	250,000
Unassigned	2,760,372	(177,587)	2,582,785
	<u>3,747,036</u>	<u>755,080</u>	<u>4,502,116</u>
TOTAL FUND BALANCES	3,747,036	755,080	4,502,116
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 5,069,435</u>	<u>\$ 1,229,940</u>	<u>\$ 6,299,375</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, 2016

<b>Total Governmental Fund Balances</b>	\$ 4,502,116
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	12,398,942
<ul style="list-style-type: none"><li>• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.</li></ul>	897,439
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection.</li></ul>	888,082
<ul style="list-style-type: none"><li>• Long-term liabilities, including notes payable, bonds payable, capital leases, landfill closure, accrued compensated absences, net OPEB obligation and net pension liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(15,855,492)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ 2,831,087</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, 2016

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 15,134,880	\$ -	\$ 15,134,880
Excises	764,159	-	764,159
Penalties, interest and other taxes	115,275	-	115,275
Charges for services	322,702	523,224	845,926
Intergovernmental	1,746,469	2,089,742	3,836,211
Licenses and permits	180,250	-	180,250
Fines and forfeitures	22,373	-	22,373
Investment income	9,542	2,943	12,485
Miscellaneous	87,780	3,316	91,096
	<u>18,383,430</u>	<u>2,619,225</u>	<u>21,002,655</u>
<b>Expenditures:</b>			
Current:			
General government	1,168,634	1,308,186	2,476,820
Public safety	1,874,214	292,404	2,166,618
Education	9,290,504	-	9,290,504
Public works	1,846,871	423,139	2,270,010
Health and human services	313,961	17,289	331,250
Culture and recreation	488,737	642,897	1,131,634
Employee benefits	1,874,251	-	1,874,251
Debt service	630,413	32,850	663,263
Intergovernmental	170,234	-	170,234
	<u>17,657,819</u>	<u>2,716,765</u>	<u>20,374,584</u>
Excess (deficiency) of revenues over expenditures	725,611	(97,540)	628,071
<b>Other Financing Sources (Uses):</b>			
Transfers in	38,662	25,000	63,662
Transfers out	(511,052)	(38,661)	(549,713)
	<u>(472,390)</u>	<u>(13,661)</u>	<u>(486,051)</u>
Change in fund balance	253,221	(111,201)	142,020
Fund Equity, at Beginning of Year	<u>3,493,815</u>	<u>866,281</u>	<u>4,360,096</u>
Fund Equity, at End of Year	<u>\$ 3,747,036</u>	<u>\$ 755,080</u>	<u>\$ 4,502,116</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, 2016

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 142,020</b>						
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">1,615,814</td> </tr> <tr> <td>Capital asset disposals, net</td> <td style="text-align: right;">(68,326)</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(772,172)</td> </tr> </table> </li> </ul>		Capital outlay purchases	1,615,814	Capital asset disposals, net	(68,326)	Depreciation	(772,172)
Capital outlay purchases	1,615,814						
Capital asset disposals, net	(68,326)						
Depreciation	(772,172)						
<ul style="list-style-type: none"> <li>• Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the change in deferred revenue, net of allowance for uncollectibles. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">123,807</td> </tr> </table> </li> </ul>			123,807				
	123,807						
<ul style="list-style-type: none"> <li>• The issuance of long-term debt (e.g., notes, bonds and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">425,595</td> </tr> <tr> <td>Capital lease payments</td> <td style="text-align: right;">39,541</td> </tr> </table> </li> </ul>		Repayments of debt	425,595	Capital lease payments	39,541		
Repayments of debt	425,595						
Capital lease payments	39,541						
<ul style="list-style-type: none"> <li>• Some expenses reported in the statement of activities, such as landfill closure liability, accrued compensated absences, net OPEB obligation and net pension liability, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(426,188)</u></td> </tr> </table> </li> </ul>			<u>(426,188)</u>				
	<u>(426,188)</u>						
<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u>1,080,091</u></b>						

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

TOWN OF MONTAGUE, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 14,898,489	\$ 14,898,489	\$ 14,898,489	\$ -
Excises	656,337	656,337	764,159	107,822
Penalties, interest and other taxes	102,500	102,500	115,275	12,775
Charges for services	274,725	274,725	322,702	47,977
Intergovernmental	1,695,381	1,695,381	1,746,469	51,088
Licenses and permits	121,500	121,500	180,250	58,750
Fines and forfeitures	20,350	20,350	22,373	2,023
Investment income	3,000	3,000	5,573	2,573
Miscellaneous	73,546	73,546	87,780	14,234
Transfers in	158,000	170,500	197,156	26,656
Other sources	601,750	642,250	642,250	-
<b>Total Revenues and Other Sources</b>	<b>18,605,578</b>	<b>18,658,578</b>	<b>18,982,476</b>	<b>323,898</b>
<b>Expenditures and Other Uses:</b>				
General government	1,322,409	1,323,609	1,250,432	73,177
Public safety	1,933,118	1,959,118	1,888,747	70,371
Education	9,283,952	9,283,952	9,283,952	-
Public works	1,948,854	1,949,654	1,819,133	130,521
Health and human services	352,077	352,077	313,961	38,116
Culture and recreation	495,028	495,028	489,737	5,291
Employee benefits	1,940,642	1,940,642	1,874,251	66,391
Debt service	640,580	640,580	630,413	10,167
Intergovernmental	170,234	170,234	170,234	-
Transfers out	518,684	543,684	543,684	-
<b>Total Expenditures and Other Uses</b>	<b>18,605,578</b>	<b>18,658,578</b>	<b>18,264,544</b>	<b>394,034</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 717,932	\$ 717,932

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

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 686,381	\$ 13,060	\$ 699,441
User fees, net of allowance for uncollectibles	252,276	-	252,276
Intergovernmental receivables	-	52,532	52,532
Total current assets	938,657	65,592	1,004,249
Noncurrent:			
Land and construction in progress	2,299,152	2,174,549	4,473,701
Capital assets, net of accumulated depreciation	11,183,526	6,657,690	17,841,216
Total noncurrent assets	13,482,678	8,832,239	22,314,917
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	107,263	3,359	110,622
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	14,528,598	8,901,190	23,429,788
<b>LIABILITIES</b>			
Current:			
Warrants payable	41,971	2,479	44,450
Accounts payable	-	1,019,088	1,019,088
Accrued payroll	19,950	389	20,339
Accrued interest payable	61,308	-	61,308
Notes payable	2,475,780	-	2,475,780
Current portion of long-term liabilities:			
Bonds payable	273,468	-	273,468
Total current liabilities	2,872,477	1,021,956	3,894,433
Noncurrent:			
Bonds payable, net of current portion	4,329,454	-	4,329,454
Accrued compensated absences	17,917	-	17,917
Net OPEB obligation	617,383	-	617,383
Net pension liability	549,330	17,200	566,530
Total noncurrent liabilities	5,514,084	17,200	5,531,284
<b>DEFERRED INFLOWS OF RESOURCES</b>	4,739	148	4,887
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	8,391,300	1,039,304	9,430,604
<b>NET POSITION</b>			
Net investment in capital assets	6,375,480	8,832,239	15,207,719
Unrestricted	(238,182)	(970,353)	(1,208,535)
<b>TOTAL NET POSITION</b>	<b>\$ 6,137,298</b>	<b>\$ 7,861,886</b>	<b>\$ 13,999,184</b>

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

TOWN OF MONTAGUE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<b>Operating Revenues:</b>			
Charges for services	\$ <u>2,037,907</u>	\$ <u>32,381</u>	\$ <u>2,070,288</u>
Total Operating Revenues	2,037,907	32,381	2,070,288
<b>Operating Expenses:</b>			
Operating expenses	1,768,115	44,681	1,812,796
Depreciation	<u>398,583</u>	<u>402,409</u>	<u>800,992</u>
Total Operating Expenses	<u>2,166,698</u>	<u>447,090</u>	<u>2,613,788</u>
Operating Income (Loss)	(128,791)	(414,709)	(543,500)
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	89	96	185
Grant income	32,086	1,526,719	1,558,805
Interest expense	<u>(174,707)</u>	<u>-</u>	<u>(174,707)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(142,532)</u>	<u>1,526,815</u>	<u>1,384,283</u>
Income (Loss) Before Transfers	(271,323)	1,112,106	840,783
<b>Transfers:</b>			
Transfers in	<u>220,620</u>	<u>15,431</u>	<u>236,051</u>
Change in Net Position	(50,703)	1,127,537	1,076,834
Net Position at Beginning of Year, as restated	<u>6,188,001</u>	<u>6,734,349</u>	<u>12,922,350</u>
Net Position at End of Year	<u>\$ 6,137,298</u>	<u>\$ 7,861,886</u>	<u>\$ 13,999,184</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, 2016

	Business-Type Activities Enterprise Funds		Total Business-Type Activities
	Sewer Fund	Airport Fund	
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 2,061,939	\$ 2,255	\$ 2,064,194
Payments to vendors and employees	(1,969,476)	(42,589)	(2,012,065)
Net Cash Provided By (Used For) Operating Activities	92,463	(40,334)	52,129
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>			
Transfers in	220,620	15,431	236,051
Net Cash Provided By Noncapital Financing Activities	220,620	15,431	236,051
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Acquisition and construction of capital assets	(1,739,573)	(1,793,891)	(3,533,464)
Issuance of short-term debt	2,475,780	-	2,475,780
Payments of short-term debt	(623,352)	-	(623,352)
Principal payments on bonds and notes	(269,112)	-	(269,112)
Grant income	32,086	1,526,719	1,558,805
Interest paid	(177,555)	-	(177,555)
Net Cash (Used For) Capital and Related Financing Activities	(301,726)	(267,172)	(568,898)
<b><u>Cash Flows From Investing Activities:</u></b>			
Investment income	89	96	185
Net Cash Provided By Investing Activities	89	96	185
Net Change in Cash and Short-Term Investments	11,446	(291,979)	(280,533)
Cash and Short Term Investments, Beginning of Year	674,935	305,039	979,974
Cash and Short Term Investments, End of Year	\$ 686,381	\$ 13,060	\$ 699,441
<b><u>Reconciliation of Operating (Loss) to Net Cash Provided By (Used For) Operating Activities:</u></b>			
Operating (loss)	\$ (128,791)	\$ (414,709)	\$ (543,500)
Adjustments to reconcile operating (loss) to net cash provided by (used for) operating activities:			
Depreciation	398,583	402,409	800,992
Changes in assets and liabilities:			
User fees and other receivables	24,032	(30,126)	(6,094)
Warrants and accounts payable	(195,344)	2,479	(192,865)
Other liabilities	30,644	(182)	30,462
Net pension liability, net of deferrals	(36,661)	(205)	(36,866)
Net Cash Provided By (Used For) Operating Activities	\$ 92,463	\$ (40,334)	\$ 52,129

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

TOWN OF MONTAGUE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Private Purpose Trust Funds	Other Post- Employment Trust Fund	Pension Trust Fund (as of December 31, 2015)
<b><u>ASSETS</u></b>			
Cash and short-term investments	\$ 123,945	\$ 250,000	\$ 166,547
Investments	-	-	34,307,693
Accounts receivable	-	-	9,188
Total Assets	<u>123,945</u>	<u>250,000</u>	<u>34,483,428</u>
 <b><u>NET POSITION</u></b>			
Total net position restricted for pensions and other purposes	<u>\$ 123,945</u>	<u>\$ 250,000</u>	<u>\$ 34,483,428</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, 2016

	Private Purpose Trust Funds	Other Post- Employment Trust Fund	Pension Trust Fund (For The Year Ended December 31, 2015)
<b>Additions:</b>			
Contributions:			
Employers	\$ -	\$ -	\$ 1,685,500
Plan members	-	-	643,197
Other systems and Commonwealth of Massachusetts	-	-	174,699
Total contributions	<u>-</u>	<u>-</u>	<u>2,503,396</u>
Investment Income:			
Interest and dividends	2,582	-	904,137
Decrease in fair value of investments	-	-	(518,569)
Less: management fees	-	-	(177,989)
Net investment income	<u>2,582</u>	<u>-</u>	<u>207,579</u>
Total additions	2,582	-	2,710,975
<b>Deductions:</b>			
Benefit payments to plan members and beneficiaries	-	-	2,369,077
Reimbursements to other systems	-	-	130,793
Refunds to plan members	-	-	20,150
Administrative expenses	-	-	104,844
Scholarships awarded	2,750	-	-
Total deductions	<u>2,750</u>	<u>-</u>	<u>2,624,864</u>
Net increase (decrease), before transfers	(168)	-	86,111
Transfer in	-	250,000	-
Net increase (decrease), after transfers	(168)	250,000	86,111
<b>Net position:</b>			
Beginning of year	<u>124,113</u>	<u>-</u>	<u>34,397,317</u>
End of year	<u>\$ 123,945</u>	<u>\$ 250,000</u>	<u>\$ 34,483,428</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 2016, it was determined that no entities met the required GASB-14 (as amended) criteria of component units, other than as described below.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Montague Contributory Retirement System, which 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*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

### Fund Financial Statements

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

The Town reports the following major governmental fund:

- 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.

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 funds:

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

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

The *other post-employment trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.

The *pension trust fund* accounts for the activities of the Montague Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

*D. Cash and Short-Term Investments*

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

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

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

*E. Investments*

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

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

*F. Property Tax Limitations*

Legislation known as "Proposition 2 ½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2016 tax levy reflected an excess capacity of \$14,653.

G. Capital Assets

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

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

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

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

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

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

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

K. Use of Estimates

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

2. **Stewardship, Compliance and Accountability**

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 18,383,430	\$ 17,657,819
Other financing sources/uses (GAAP basis)	<u>38,662</u>	<u>511,052</u>
Subtotal (GAAP Basis)	18,422,092	18,168,871
Remove the effect of adding Town's stabilization funds per GASB 54:		
Reverse the adjustment eliminating interfund transfers	158,494	32,632
Remove stabilization funds income	(3,969)	-
Adjust tax revenue to accrual basis	(236,391)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(405,225)
Add end of year appropriation carryforwards to expenditures	-	468,266
Recognize the use of fund balance as a funding source	<u>642,250</u>	<u>-</u>
Budgetary basis	<u>\$ 18,982,476</u>	<u>\$ 18,264,544</u>

D. Deficit Fund Equity

The following funds had deficit balances as of June 30, 2016:

Capital Project Funds:

Soil Stabilization	\$ (81,679)
Unity Park	<u>(95,908)</u>
	<u>\$ (177,587)</u>

The deficit 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 sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The Town and the Contributory Retirement System do not have deposit policies for custodial credit risk.

As of June 30, 2016, none of the Town's bank balance of \$7,001,637 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2015, none of the Contributory Retirement System's bank balance of \$221,799 was exposed to custodial credit risk as uninsured and/or uncollateralized.

### **4. Investments**

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

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

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

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

*B. Custodial Credit Risk*

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

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

*C. Concentration of Credit Risk*

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

The System does not have an investment in one issuer greater than 5% of total investments other than the PRIT Fund.

*D. Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Contributory Retirement 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 policies for foreign currency risk.

*F. Fair Value*

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

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The System has the following fair value measurements as of December 31, 2015:

<u>Description</u>	
Investments measured at the net asset value (NAV):	
External investment pool	\$ <u>34,307,693</u>

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	Redemption Frequency (If currently eligible)	Redemption Notice Period
External investment pool	\$ 34,307,693	\$ -	Monthly	30 days

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

**5. Taxes 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 semi-annual 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.

Fourteen days after the due date for the final tax bill for real estate taxes, 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.

Taxes receivable at June 30, 2016 consist of the following (in thousands):

Real Estate		
2016	\$ 339	
2015	124	
2014 and prior	<u>45</u>	508
Personal Property		
2016	14	
2015 and prior	<u>2</u>	16
Tax Liens		<u>260</u>
Total		<u>\$ 784</u>

## 6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Sewer Enterprise</u>
Property taxes - current	\$ 29	\$ -
Property taxes - noncurrent	52	-
Excises	2	-
User fees		37

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

## 8. Other Assets

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

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 13,935,712	\$ 32,769	\$ (95,475)	\$ 748,296	\$ 14,621,302
Machinery, equipment, vehicles and furnishings	3,091,223	325,434	(82,559)	-	3,334,098
Infrastructure	<u>273,792</u>	<u>477,651</u>	<u>-</u>	<u>-</u>	<u>751,443</u>
Total capital assets, being depreciated	17,300,727	835,854	(178,034)	748,296	18,706,843
Less accumulated depreciation for:					
Buildings and improvements	(5,081,719)	(504,811)	38,192	-	(5,548,338)
Machinery, equipment, vehicles and furnishings	(2,011,297)	(249,230)	82,559	-	(2,177,968)
Infrastructure	<u>(233,029)</u>	<u>(18,131)</u>	<u>-</u>	<u>-</u>	<u>(251,160)</u>
Total accumulated depreciation	<u>(7,326,045)</u>	<u>(772,172)</u>	<u>120,751</u>	<u>-</u>	<u>(7,977,466)</u>
Total capital assets, being depreciated, net	9,974,682	63,682	(57,283)	748,296	10,729,377
Capital assets, not being depreciated:					
Land	594,656	43,791	(11,043)	-	627,404
Construction in progress	<u>1,054,288</u>	<u>736,169</u>	<u>-</u>	<u>(748,296)</u>	<u>1,042,161</u>
Total capital assets, not being depreciated	<u>1,648,944</u>	<u>779,960</u>	<u>(11,043)</u>	<u>(748,296)</u>	<u>1,669,565</u>
Governmental activities capital assets, net	<u>\$ 11,623,626</u>	<u>\$ 843,642</u>	<u>\$ (68,326)</u>	<u>\$ -</u>	<u>\$ 12,398,942</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 13,992,543	\$ -	\$ -	\$ 1,242,819	\$ 15,235,362
Machinery, equipment, vehicles and furnishings	103,706	-	-	-	103,706
Infrastructure	<u>11,871,657</u>	<u>-</u>	<u>-</u>	<u>173,274</u>	<u>12,044,931</u>
Total capital assets, being depreciated	25,967,906	-	-	1,416,093	27,383,999
Less accumulated depreciation for:					
Buildings and improvements	(6,088,511)	(554,757)	-	-	(6,643,268)
Machinery, equipment, vehicles and furnishings	(78,967)	(7,069)	-	-	(86,036)
Infrastructure	<u>(2,574,313)</u>	<u>(239,166)</u>	<u>-</u>	<u>-</u>	<u>(2,813,479)</u>
Total accumulated depreciation	<u>(8,741,791)</u>	<u>(800,992)</u>	<u>-</u>	<u>-</u>	<u>(9,542,783)</u>
Total capital assets, being depreciated, net	17,226,115	(800,992)	-	1,416,093	17,841,216
Capital assets, not being depreciated:					
Land	266,750	-	-	-	266,750
Construction in progress	<u>1,376,484</u>	<u>4,246,560</u>	<u>-</u>	<u>(1,416,093)</u>	<u>4,206,951</u>
Total capital assets, not being depreciated	<u>1,643,234</u>	<u>4,246,560</u>	<u>-</u>	<u>(1,416,093)</u>	<u>4,473,701</u>
Business-type activities capital assets, net	<u>\$ 18,869,349</u>	<u>\$ 3,445,568</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,314,917</u>

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

Governmental Activities:	
General government	\$ 276,571
Public safety	170,411
Education	64,971
Public works	213,003
Culture and recreation	<u>47,216</u>
Total depreciation expense - governmental activities	\$ <u>772,172</u>
Business-Type Activities:	
Sewer	\$ 398,583
Airport	<u>402,409</u>
Total depreciation expense - business-type activities	\$ <u>800,992</u>

**10. Deferred Outflows of Resources**

Deferred outflows of resources represent the consumption of net assets by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The balance in deferred outflows of resources as of June 30, 2016 represents the net difference between projected and actual pension investment earnings.

**11. Warrants and Accounts Payable**

Warrants payable represent 2016 expenditures paid by July 15, 2016 as permitted by law. Accounts payable represents additional 2016 expenditures paid after July 15, 2016.

**12. Anticipation Notes Payable**

The Town had the following short-term notes outstanding at June 30, 2016:

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2016</u>
Bond anticipation	0.65%	01/21/16	01/19/17	\$ 115,780
Bond anticipation	0.76%	02/11/16	01/21/17	360,000
Bond anticipation	0.72%	04/14/16	01/12/17	1,000,000
Bond anticipation	0.79%	05/24/16	01/12/17	1,000,000
Bond anticipation	0.75%	06/28/16	01/21/17	81,679
State anticipation	0.75%	06/28/16	10/25/16	146,820
State anticipation	0.75%	06/28/16	01/21/17	95,345
Total				<u>\$ 2,799,624</u>

The following summarizes activity in short-term notes payable during fiscal year 2016:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
State anticipation	\$ 99,179	\$ 242,165	\$ (99,179)	\$ 242,165
Bond anticipation	649,852	3,112,638	(1,205,031)	2,557,459
Revenue anticipation	-	4,000,000	(4,000,000)	-
Total	<u>\$ 749,031</u>	<u>\$ 7,354,803</u>	<u>\$ (5,304,210)</u>	<u>\$ 2,799,624</u>

### 13. Long-Term Debt

#### A. General Obligation Bonds

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

<u>Governmental Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2016
<u>Bonds Payable:</u>			
Landfill	08/15/19	5.25%	\$ 140,000
Colle Opera House	06/15/22	4.25%	60,000
Municipal purpose	11/01/26	4.11%	325,000
Combined sewer overflow (MCWT)	07/15/27	2.00%	229,800
Municipal purpose	11/15/27	4.50%	3,815,000
FRCOG Brownsfields	06/30/33	2.50%	114,347
Municipal purpose	05/15/34	3.00%	90,000
Combined sewer overflow (MCWT)	01/15/39	2.41%	612,336
USDA	11/01/45	4.38%	368,444
Total Bonds Payable			5,754,927
<u>Notes Payable: *</u>			
Sheffield Parking Lot and Roof	05/22/16	2.15%	100,000
Total Notes Payable			100,000
Total Governmental Activities			\$ 5,854,927

\* 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 2016 and due in fiscal year 2017.

<u>Business-Type Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2016
Millers Falls sewer (MCWT)	02/01/17	N/A	\$ 69,879
Combined sewer overflow (MCWT)	02/01/18	N/A	20,634
Sewer - property acquisition	06/15/22	4.34%	30,000
Sewer - multiple purpose	06/15/23	4.42%	195,000
Sewer - multiple purpose	11/01/26	4.11%	134,729
Combined sewer overflow (MCWT)	07/15/27	2.00%	344,699
Sewer - multiple purpose	05/15/34	3.00%	1,430,000
Combined sewer overflow (MCWT)	01/15/39	2.41%	918,503
USDA	11/01/45	4.38%	552,669
USDA	09/21/47	4.13%	906,809
Total Business-Type Activities			\$ 4,602,922

## B. Future Debt Service

The annual payments to retire all general obligation long-term bonds and notes outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 436,869	\$ 215,280	\$ 652,149
2018	423,178	200,020	623,198
2019	429,525	184,032	613,557
2020	440,907	167,665	608,572
2021	417,327	151,815	569,142
2022 - 2026	2,119,345	520,913	2,640,258
2027 - 2031	1,084,315	143,555	1,227,870
2032 and thereafter	503,461	114,628	618,089
Total	\$ <u>5,854,927</u>	\$ <u>1,697,908</u>	\$ <u>7,552,835</u>

  

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 273,468	\$ 160,599	\$ 434,067
2018	201,842	150,491	352,333
2019	198,485	144,102	342,587
2020	205,974	137,549	343,523
2021	203,543	130,682	334,225
2022 - 2026	984,132	556,475	1,540,607
2027 - 2031	890,948	402,967	1,293,915
2032 and thereafter	1,644,530	450,157	2,094,687
Total	\$ <u>4,602,922</u>	\$ <u>2,133,022</u>	\$ <u>6,735,944</u>

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

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

	Total Balance July 1, 2015	Additions	Reductions	Total Balance June 30, 2016	Less Current Portion	Long-Term Portion June 30, 2016
<u>Governmental Activities</u>						
Notes payable	\$ 120,000	\$ -	\$ (20,000)	\$ 100,000	\$ (20,000)	80,000
Bonds payable	6,160,522	-	(405,595)	5,754,927	(416,869)	5,338,058
Capital lease	80,929	-	(39,541)	41,388	(41,388)	-
Landfill closure	187,500	-	(12,500)	175,000	(12,500)	162,500
Accrued compensated absences	285,396	-	(12,355)	273,041	-	273,041
Net OPEB obligation	4,224,840	477,777	-	4,702,617	-	4,702,617
Net pension liability	3,967,578	840,941	-	4,808,519	-	4,808,519
Totals	\$ <u>15,026,765</u>	\$ <u>1,318,718</u>	\$ <u>(489,991)</u>	\$ <u>15,855,492</u>	\$ <u>(490,757)</u>	\$ <u>15,364,735</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,872,034	\$ -	\$ (269,112)	\$ 4,602,922	\$ (273,468)	\$ 4,329,454
Accrued compensated absences	23,807	-	(5,890)	17,917	-	17,917
Net OPEB obligation	585,160	32,223	-	617,383	-	617,383
Net pension liability	501,422	65,108	-	566,530	-	566,530
Totals	\$ <u>5,982,423</u>	\$ <u>97,331</u>	\$ <u>(275,002)</u>	\$ <u>5,804,752</u>	\$ <u>(273,468)</u>	\$ <u>5,531,284</u>

**D. Overlapping Debt**

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

<u>Related Entity</u>	<u>Total Principal</u>	<u>Town's Percent</u>	<u>Town's Share</u>
<u>Gill-Montague Regional School District:</u>			
Gill-Montague Regional High School	\$ 1,050,000	87.89%	\$ 922,845
Total	\$ 1,050,000		\$ 922,845

**E. Pump Station Replacements**

In April 2015, the Town signed a loan financing agreement with the Massachusetts Clean Water Trust (the Trust) for pump station replacements totaling approximately \$1.95 million. The loan will be finalized with the Trust when the project is complete and will have an interest rate of 2%.

**14. Capital Lease Obligations**

The Town is the lessee of a highway department dump truck under a capital lease expiring on July 5, 2016. Future minimum lease payments under the capital lease consisted of the following as of June 30, 2016:

2017	\$ 43,321
Total minimum lease payments	43,321
Less amounts representing interest	(1,933)
Present Value of Minimum Lease Payments	\$ 41,388

**15. Landfill Closure and Post-Closure Care Costs**

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$175,000 reported as landfill liability at June 30, 2016 represents the estimated cost of monitoring the landfill for the next 14 years. This amount is

based on what it would cost to perform all closure and post-closure care in 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**16. Deferred Inflows of Resources**

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The balance in deferred inflow of resources on the fund basis financial statements as of June 30, 2016 consists of unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The balance of the general fund deferred inflows of resources account is equal to the total of all June 30, 2016 receivable balances.

The balance in deferred inflows of resources on the government-wide financial statements as of June 30, 2016 represents the pension related changes in proportion and differences between contributions and proportionate share of contributions.

**17. Interfund Fund Accounts**

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 197,156	\$ 543,684
Town stabilization funds	32,632	158,494
Nonmajor Governmental Funds:		
Special revenue funds	-	20,000
Capital project funds	25,000	18,661
Sewer enterprise fund	220,620	-
Airport enterprise fund	15,431	-
OPEB trust fund	250,000	-
Total	<u>\$ 740,839</u>	<u>\$ 740,839</u>

Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. Transfers from the general fund to the enterprise funds primarily reflect budgetary actions intended to 1.) reimburse the sewer fund for the Town's share of storm water processing and 2.) to subsidize ambulance operations.

#### **18. Restricted Net Position**

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

#### **19. Governmental Funds – Balances**

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

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

The following types of fund balances are reported at June 30, 2016:

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level

of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital project accounts funded by appropriation, stabilization funds designated for specific purposes, and funds set-aside by the Town.

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

Unassigned - Represents amounts that are available to be spent in future periods. This fund balance classification includes general stabilization funds set aside by Town Meeting vote and funds with deficit balances at June 30, 2016.

Following is a breakdown of the Town's fund balances at June 30, 2016:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 65,440	\$ 65,440
Total Nonexpendable	-	65,440	65,440
Restricted			
Special revenue funds	-	762,486	762,486
Expendable permanent funds	-	27,505	27,505
Total Restricted	-	789,991	789,991
Committed			
Special articles	468,266	-	468,266
Stabilization funds for specific purposes *	268,398	-	268,398
Capital project funds funded by general fund appropriation	-	27,260	27,260
Town set-asides	-	49,976	49,976
Total Committed	736,664	77,236	813,900
Assigned			
Reserved for expenditures	250,000	-	250,000
Total Assigned	250,000	-	250,000
Unassigned			
Unassigned	1,877,969	-	1,877,969
General stabilization fund	882,403	-	882,403
Deficit capital project funds	-	(177,587)	(177,587)
Total Unassigned	2,760,372	(177,587)	2,582,785
Total Fund Balance	\$ 3,747,036	\$ 755,080	\$ 4,502,116

\* 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.

**20. Subsequent Events**

Debt

Subsequent to June 30, 2016, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Revenue anticipation	\$ 2,000,000	0.64%	08/18/16	10/17/16

**21. Commitments and Contingencies**

Outstanding Legal Issues - There is a pending legal issue 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, 2016 the Trust contracted with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$250,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At June 30, 2016, according to the Trust’s unaudited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$3.7 million, the Trust was in a surplus position of approximately \$20.5 million.

## **22. Post-Employment Health Care and Life Insurance Benefits**

### Other Post-Employment Benefits

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

#### *A. Plan Description*

In addition to providing the pension benefits described in the following footnote, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. As of July 1, 2015, the actuarial valuation date, approximately 61 retirees and 65 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

#### *B. Benefits Provided*

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

#### *C. Funding Policy*

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

#### *D. Annual OPEB Costs and Net OPEB Obligation*

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

contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2015.

	Governmental Funds	Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 1,084,422	\$ 145,578	\$ 1,230,000
Interest on net OPEB obligation	170,785	19,215	190,000
Adjustment to ARC	(196,630)	(53,370)	(250,000)
Annual OPEB cost	1,058,577	111,423	1,170,000
Contributions made	(580,800)	(79,200)	(660,000)
Increase (decrease) in net OPEB obligation	477,777	32,223	510,000
Net OPEB obligation - beginning of year	4,224,840	585,160	4,810,000
Net OPEB obligation - end of year	<u>\$ 4,702,617</u>	<u>\$ 617,383</u>	<u>\$ 5,320,000</u>

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

Fiscal year ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 1,170,000	56%	\$ 5,320,000
2015	\$ 1,140,000	35%	\$ 4,810,000
2014	\$ 1,120,000	35%	\$ 4,070,000
2013	\$ 1,133,819	47%	\$ 3,338,762
2012	\$ 1,118,605	44%	\$ 2,733,447
2011	\$ 1,099,075	41%	\$ 2,106,964
2010	\$ 1,253,257	43%	\$ 1,454,589
2009	\$ 1,196,883	41%	\$ 703,139

The Town's net OPEB obligation as of June 30, 2016 is recorded as separate line item in the accompanying government-wide financial statements.

**E. Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 14,950,000
Actuarial value of plan assets	-
	<hr/>
Unfunded actuarial accrued liability (UAAL)	\$ 14,950,000
	<hr/>
Funded ratio (actuarial value of plan assets/AAL)	0%
	<hr/>
Covered payroll (active plan members)	\$ 2,870,000
	<hr/>
UAAL as a percentage of covered payroll	521%
	<hr/>

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

*F. Actuarial Methods and Assumptions*

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

In the July 1, 2015 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 9.5% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 2.5%.

**23. Montague Contributory Retirement System**

The Town follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. *Plan Description*

Substantially all employees of the Town are members of the Montague Contributory Retirement System (MCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the MCRS. 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 MCRS Retirement Board, 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 publically available from the System located at 1 Avenue A, Turners Falls, MA 01376.

*Participant Retirement Benefits*

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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/City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants

perform the duties of the Group position for at least 12 months immediately prior to retirement.

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

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

#### Participant Refunds

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

#### Participants Contributions

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

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

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

### Employer Contributions

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

The Town's contribution to the System for the year ended June 30, 2016 was \$925,341, 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, 2016, the Town reported a liability of \$5,375,049 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. 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 December 31, 2015, the Town's proportion was 52.19 percent.

For the year ended June 30, 2016, the Town recognized pension expense of \$828,014. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension related:		
Net difference between projected and actual investment earnings	\$ 1,049,541	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>46,367</u>
Total	<u>\$ 1,049,541</u>	<u>\$ 46,367</u>

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

Year ended June 30:

2017	\$ 251
2018	251
2019	251
2020	<u>250</u>
Total	<u>\$ 1,003</u>

#### D. Actuarial Assumptions

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

Valuation Date	1/1/2014
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.25-4.75%
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first \$18,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the January 1,

2014 valuation were based on the results of the most recent actuarial experience study, which was for the period ended December 31, 2013.

Pre-retirement rates for mortality were based on RP-2000 Employees table projected generationally with Scale AA (gender distinct) and post-retirement rates for mortality were based on RP-2000 Health Annuitant table projected generationally with Scale AA (gender distinct). For disabled retirees, the table is set forward 3 years for males.

During the fiscal year there were no changes of benefit terms or assumptions.

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>Real Return Arithmetic Basis</u>	<u>Long-term Expected Real Rate of Return</u>
Large Cap Equities	14.50%	7.50%	1.09%
Small/Mid Cap Equities	3.50%	7.75%	0.27%
Int'l Equities	16.00%	8.00%	1.28%
Emerging Int'l Equities	6.00%	9.25%	0.56%
Core Bonds	3.00%	3.98%	0.12%
20+ Yr. Treasury STRIPS	7.00%	4.00%	0.28%
15 Yr. Duration Treasuries	0.00%	5.00%	0.00%
TIPS	3.00%	4.00%	0.12%
High-Yield Bonds	1.50%	5.75%	0.09%
Bank Loans	1.50%	6.00%	0.09%
EMD (External)	1.00%	6.00%	0.06%
EMD (Local Currency)	2.00%	6.75%	0.14%
Private Debt	4.00%	8.00%	0.32%
Private Equity	10.00%	9.50%	0.95%
Real Estate (Core)	10.00%	6.50%	0.65%
Timber/Natural Resources	4.00%	6.75%	0.27%
Hedge Funds	9.00%	6.75%	0.61%
Portfolio Completion Strategies	4.00%	n/a	n/a
Total	<u>100.00%</u>		

*E. Discount Rate*

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*F. Sensitivity of the proportionate share of the net pension liability to changes in the discount rate*

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate (in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2016	\$7,893	\$5,375	\$3,201

*G. Pension Plan Fiduciary Net Position*

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

**24. Risk Management**

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

**25. Beginning Net Position Restatement**

The beginning (July 1, 2015) net position of the Town’s sewer fund has been restated as follows:

	<u>Business-Type Activities</u>	
	<u>Sewer</u>	
	<u>Fund</u>	<u>Total</u>
As previously reported, 06/30/15	\$ 6,306,675	\$ 13,041,024
Remove prior year MCWT receivable	<u>(118,674)</u>	<u>(118,674)</u>
As restated, 06/30/15	<u>\$ 6,188,001</u>	<u>\$ 12,922,350</u>

**26. Implementation of New GASB Standard**

The Governmental Accounting Standards Board (GASB) has issued Statement 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, replacing Statement No. 43 and 57, which is required to be implemented for fiscal year 2017. Included are requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, 43, and 50. Management’s current assessment is that this pronouncement will not have a significant impact on the Plan’s financial statements, though the additional note disclosures and required supplementary information will be significant.

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

TOWN OF MONTAGUE, MASSACHUSETTS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF OPEB FUNDING PROGRESS

June 30, 2016

(Unaudited)

(Amounts expressed in thousands)

**Other Post-Employment Benefits**

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/15	\$ -	\$ 14,950	\$ 14,950	0.0%	\$ 2,870	521%
07/01/13	\$ -	\$ 12,930	\$ 12,930	0.0%	\$ 3,210	403%
07/01/10	\$ -	\$ 14,583	\$ 14,583	0.0%	N/A	N/A
12/31/07	\$ -	\$ 17,231	\$ 17,231	0.0%	N/A	N/A

See Independent Auditors' Report.

TOWN OF MONTAGUE  
 SCHEDULE OF PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016  
 (Amounts expressed in thousands)  
 (Unaudited)

**Montague Contributory Retirement System**

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2016	52.19%	\$5,375	\$3,354	160.27%	77.00%
June 30, 2015	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  
SCHEDULE OF PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016  
(Amounts expressed in thousands)  
(Unaudited)

**Montague Contributory Retirement System**

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

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