

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

Additional Offices:

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

To the Board of Selectmen
Town of Southamton, Massachusetts

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 Southamton, Massachusetts, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Southamptton, Massachusetts, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of OPEB Funding Progress, Schedule of Proportionate Share of Net Pension Liability, and 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.

Melanson Heath

June 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Southampton, 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 financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The Statement of Net Position presents information on all assets, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, employee benefits, interest, and intergovernmental. The business-type activities include water and transfer station 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 government'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, enterprise funds are used to account for water and transfer station 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 separate information for the water and landfill operations, both of which are considered to be 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 is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$16,576,441 (i.e., net position), a change of \$(223,102) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,178,555, a change of \$297,152 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,019,051, a change of \$166,310 in comparison with the prior year.
- Total long-term debt (i.e., notes and bonds payable) at the close of the current fiscal year was \$3,746,629, a change of \$(468,942) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 5,613,371	\$ 5,335,925	\$ 521,913	\$ 497,062	\$ 6,135,284	\$ 5,832,987
Capital assets	12,706,763	13,226,345	10,613,691	10,692,584	23,320,454	23,918,929
Deferred outflows	907,516	487,520	38,503	14,457	946,019	501,977
Total assets and deferred outflows	19,227,650	19,049,790	11,174,107	11,204,103	30,401,757	30,253,893
Long-term liabilities outstanding	10,828,228	10,258,473	2,006,208	2,095,169	12,834,436	12,353,642
Other liabilities	932,708	1,012,670	58,172	88,038	990,880	1,100,708
Total liabilities	11,760,936	11,271,143	2,064,380	2,183,207	13,825,316	13,454,350
Net position:						
Net investment in capital assets	10,803,179	10,980,415	9,291,812	9,272,463	20,094,991	20,252,878
Restricted	3,061,998	2,984,235	-	-	3,061,998	2,984,235
Unrestricted	(6,398,463)	(6,186,003)	(182,085)	(251,567)	(6,580,548)	(6,437,570)
Total net position	<u>\$ 7,466,714</u>	<u>\$ 7,778,647</u>	<u>\$ 9,109,727</u>	<u>\$ 9,020,896</u>	<u>\$ 16,576,441</u>	<u>\$ 16,799,543</u>

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 749,125	\$ 621,651	\$ 789,817	\$ 761,628	\$ 1,538,942	\$ 1,383,279
Operating grants and contributions	4,422,121	4,220,241	-	-	4,422,121	4,220,241
Capital grants and contributions	144,267	167,867	-	-	144,267	167,867
General revenues:						
Property taxes	10,878,349	10,437,811	-	-	10,878,349	10,437,811
Excises	943,177	858,387	-	-	943,177	858,387
Penalties, interest and other taxes	184,519	174,604	-	-	184,519	174,604
Grants and contributions not restricted to specific programs	603,268	582,856	-	-	603,268	582,856
Investment income	16,247	13,077	1,146	969	17,393	14,046
Miscellaneous	17,542	54,538	63,301	65,780	80,843	120,318
Total revenues	<u>17,958,615</u>	<u>17,131,032</u>	<u>854,264</u>	<u>828,377</u>	<u>18,812,879</u>	<u>17,959,409</u>
Expenses:						
General government	1,263,461	1,121,584	-	-	1,263,461	1,121,584
Public safety	1,788,340	1,768,998	-	-	1,788,340	1,768,998
Education	11,665,280	11,031,824	-	-	11,665,280	11,031,824
Public works	914,825	1,129,141	-	-	914,825	1,129,141
Health and human services	150,215	140,155	-	-	150,215	140,155
Culture and recreation	221,139	223,641	-	-	221,139	223,641
Employee benefits	2,125,857	2,274,577	-	-	2,125,857	2,274,577
Intergovernmental	13,734	13,722	-	-	13,734	13,722
Interest on long-term debt	87,205	89,607	-	-	87,205	89,607
Water operations	-	-	619,264	685,178	619,264	685,178
Transfer station operations	-	-	164,451	212,415	164,451	212,415
Total expenses	<u>18,230,056</u>	<u>17,793,249</u>	<u>783,715</u>	<u>897,593</u>	<u>19,013,771</u>	<u>18,690,842</u>
Change in net position before transfers	(271,441)	(662,217)	70,549	(69,216)	(200,892)	(731,433)
Transfers, net	(40,492)	(58,255)	18,282	7,151	(22,210)	(51,104)
Change in net position	(311,933)	(720,472)	88,831	(62,065)	(223,102)	(782,537)
Net position - beginning of year	<u>7,778,647</u>	<u>8,499,119</u>	<u>9,020,896</u>	<u>9,082,961</u>	<u>16,799,543</u>	<u>17,582,080</u>
Net position - end of year	<u>\$ 7,466,714</u>	<u>\$ 7,778,647</u>	<u>\$ 9,109,727</u>	<u>\$ 9,020,896</u>	<u>\$ 16,576,441</u>	<u>\$ 16,799,543</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 \$16,576,441, a change of \$(223,102) from the prior year.

The largest portion of net position, \$20,094,991, reflects our investment in capital assets (e.g., land, buildings, machinery and 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, \$3,061,998, represents resources that are subject to external restrictions and internal designations on how they may be used. The remaining balance of unrestricted net position are deficits of \$(6,398,463) (governmental) and \$(182,085) (business-type).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(311,933). Key elements of this change are as follows:

General Fund Operating Results:	
Shortfall of tax collections compared to budget	\$ (8,517)
State and local revenues over budget	160,209
Budgetary appropriations unspent by departments	262,575
Use of free cash (fund balance) as a funding source for nonrecurring expenses	(199,977)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	4,183
Change in Stabilization funds	(47,980)
Major fund - Community preservation fund revenues in excess of expenditures	207,218
Major fund - Other special revenue funds expenditures and transfers out in excess of revenues and transfers in	(61,286)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	(19,273)
Depreciation expense in excess of principal debt service	(453,418)
Capital assets purchases from grant and general resources	247,686
Net OPEB obligation liability increase	(317,311)
Net pension liability increase, net of deferrals	(130,662)
Other timing differences	44,620
Total	<u>\$ (311,933)</u>

Business-Type Activities. Business-type activities for the year resulted in a change in net position of \$88,831. Key elements of this change are as follows:

	<u>Water</u>	<u>Transfer Station</u>	<u>Total</u>
Operating income	\$ 41,624	\$ 49,693	\$ 91,317
Non-operating revenue (expense), net	(24,399)	3,631	(20,768)
Transfers, net	-	18,282	18,282
Change in net position	<u>\$ 17,225</u>	<u>\$ 71,606</u>	<u>\$ 88,831</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 \$4,178,555, a change of \$297,152 in comparison with the prior year. Key elements of this change are as follows:

General Fund Operating Results:	
Shortfall of tax collections compared to budget	\$ (8,517)
State and local revenues over budget	160,209
Budgetary appropriations unspent by departments	262,575
Use of free cash (fund balance) as a funding source for nonrecurring expenses	(199,977)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	4,183
Change in Stabilization funds	(47,980)
Major fund - Community preservation fund revenues in excess of expenditures	207,218
Major fund - Other special revenue funds expenditures and transfers out in excess of revenues and transfers in	(61,286)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	<u>(19,273)</u>
Total	<u>\$ 297,152</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 \$1,019,051, while total fund balance was \$1,040,341. 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 ¹	\$ 1,019,051	\$ 852,741	\$ 166,310	6.8%
Total fund balance	1,040,341	869,848	170,493	6.9%

¹ Includes Stabilization funds.

The total fund balance of the general fund changed by \$170,493 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:		
Shortfall of tax collections compared to budget	\$	(8,517)
State and local revenues over budget		160,209
Budgetary appropriations unspent by departments		262,575
Use of free cash (fund balance) as a funding source for nonrecurring expenses		(199,977)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year		4,183
Change in Stabilization funds		<u>(47,980)</u>
Total	\$	<u><u>170,493</u></u>

Included in the unassigned general fund balance were the Town's stabilization funds with the following balances:

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
Ambulance stabilization fund	\$ 50,300	\$ 25,082	\$ 25,218
Capital stabilizatoin fund	124,478	232,596	(108,118)
Operating stabilization fund	<u>281,670</u>	<u>246,750</u>	<u>34,920</u>
Total	<u>\$ 456,448</u>	<u>\$ 504,428</u>	<u>\$ (47,980)</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 \$(182,085), a change of \$69,482 in comparison to the prior year.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$209,977. Major reasons for these amendments include:

- \$ 77,736 transfer to the capital stabilization fund.
- \$ 66,631 transfer to the operating stabilization fund.
- \$ 22,210 transfer to the OPEB trust fund.
- \$ 10,000 increase in a Police department wages budget.
- \$ 33,400 other line item increases.

Of this increase, \$199,977 was funded by free cash and \$10,000 was funded by a transfer from the operating 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 \$23,320,454 (net of accumulated depreciation), a change of \$(598,475) from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

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

- Depreciation expense of \$(767,268) in governmental activities and \$(178,643) in business-type activities.
- Additions of the following:

- Public safety vehicle	\$42,335
- Public works vehicles and equipment	\$117,937
- School department equipment	\$19,715
- Infrastructure - roads	\$67,699
- Water department vehicle	\$57,900
- Water system master plan project expenses	\$41,850

Long-term debt. At the end of the current fiscal year, total long-term debt outstanding was \$3,746,629, 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 footnotes to the financial statements.

REQUESTS FOR INFORMATION

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

Ms. Vicki Leigh-Moro
Town Accountant
Town of Southampton
210 College Highway
Southampton, MA 01073

TOWN OF SOUTHAMPTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 3,528,587	\$ 435,599	\$ 3,964,186
Investments	1,401,613	-	1,401,613
Receivables, net of allowance for uncollectibles:			
Property taxes	126,187	-	126,187
Excises	83,128	-	83,128
User fees	-	86,314	86,314
Departmental and other	34,534	-	34,534
Intergovernmental	161,114	-	161,114
Loans	6,363	-	6,363
Noncurrent:			
Property taxes	232,257	-	232,257
Loans, net of current portion	39,588	-	39,588
Land and construction in progress	7,487,315	590,350	8,077,665
Capital assets, net of accumulated depreciation	5,219,448	10,023,341	15,242,789
DEFERRED OUTFLOWS OF RESOURCES	<u>907,516</u>	<u>38,503</u>	<u>946,019</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	19,227,650	11,174,107	30,401,757
LIABILITIES			
Current:			
Warrants payable	342,750	29,169	371,919
Accounts payable	77,167	281	77,448
Accrued payroll	382,191	-	382,191
Accrued interest payable	-	28,722	28,722
Notes payable	130,600	-	130,600
Current portion of long-term liabilities:			
Notes payable	160,450	-	160,450
Bonds payable	150,400	166,469	316,869
Landfill liability	-	10,885	10,885
Noncurrent:			
Notes payable, net of current portion	214,350	-	214,350
Bonds payable, net of current portion	1,611,400	1,443,560	3,054,960
Landfill liability, net of current portion	-	97,965	97,965
Accrued compensated absences	160,258	5,182	165,440
Net OPEB obligation	2,029,674	6,301	2,035,975
Net pension liability	6,501,696	275,846	6,777,542
TOTAL LIABILITIES	<u>11,760,936</u>	<u>2,064,380</u>	<u>13,825,316</u>
NET POSITION			
Net investment in capital assets	10,803,179	9,291,812	20,094,991
Restricted for:			
Grants and other statutory restrictions	2,533,301	-	2,533,301
Permanent funds:			
Nonexpendable	364,792	-	364,792
Expendable	163,905	-	163,905
Unrestricted	<u>(6,398,463)</u>	<u>(182,085)</u>	<u>(6,580,548)</u>
TOTAL NET POSITION	<u>\$ 7,466,714</u>	<u>\$ 9,109,727</u>	<u>\$ 16,576,441</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 1,503,646	\$ 763,521	\$ 537,643	\$ 723,777	\$ 3,528,587
Investments	48,947	846,752	-	505,914	1,401,613
Receivables:					
Property taxes	122,849	3,338	-	-	126,187
Tax liens	232,257	-	-	-	232,257
Excises	83,128	-	-	-	83,128
Departmental and other	4,523	-	30,011	-	34,534
Intergovernmental	-	-	26,903	134,211	161,114
Loans	-	-	45,951	-	45,951
Due from other funds	74,172	-	-	-	74,172
TOTAL ASSETS	\$ 2,069,522	\$ 1,613,611	\$ 640,508	\$ 1,363,902	\$ 5,687,543
LIABILITIES					
Warrants payable	\$ 204,344	\$ 533	\$ 6,547	\$ 131,326	\$ 342,750
Accounts payable	67,570	-	3,875	5,722	77,167
Accrued payroll	334,459	-	-	47,732	382,191
Due to other funds	-	-	-	74,172	74,172
Notes payable	-	-	130,600	-	130,600
TOTAL LIABILITIES	606,373	533	141,022	258,952	1,006,880
DEFERRED INFLOWS OF RESOURCES	422,808	3,338	75,962	-	502,108
FUND BALANCES					
Nonspendable	-	-	-	364,792	364,792
Restricted	-	-	504,124	680,215	1,184,339
Committed	-	1,609,740	-	76,216	1,685,956
Assigned	21,290	-	-	-	21,290
Unassigned	1,019,051	-	(80,600)	(16,273)	922,178
TOTAL FUND BALANCES	1,040,341	1,609,740	423,524	1,104,950	4,178,555
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,069,522	\$ 1,613,611	\$ 640,508	\$ 1,363,902	\$ 5,687,543

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2016

Total Governmental Fund Balances	\$	4,178,555
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 	12,706,763	
<ul style="list-style-type: none"> • Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds. 	907,516	
<ul style="list-style-type: none"> • In the statement of activities, accounts receivable is accrued. In the governmental funds, all receivables are deferred. 	502,108	
<ul style="list-style-type: none"> • Long-term liabilities, including notes payable, bonds payable, 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. 	<u>(10,828,228)</u>	
Net Position of Governmental Activities	\$	<u><u>7,466,714</u></u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 10,671,002	\$ 197,381	\$ -	\$ -	\$ 10,868,383
Excises	928,716	-	-	-	928,716
Penalties, interest and other taxes	175,121	9,398	-	-	184,519
Charges for services	65,466	-	184,582	242,265	492,313
Intergovernmental	3,190,023	151,040	82,919	979,174	4,403,156
Licenses and permits	230,386	-	-	-	230,386
Fines and forfeitures	10,240	-	-	-	10,240
Investment income	6,424	-	-	9,823	16,247
Miscellaneous	16,226	-	1,316	-	17,542
	<u>15,293,604</u>	<u>357,819</u>	<u>268,817</u>	<u>1,231,262</u>	<u>17,151,502</u>
Total Revenues					
Expenditures:					
Current:					
General government	563,061	138,522	70,008	20,384	791,975
Public safety	1,529,961	-	54,030	154,227	1,738,218
Education	9,859,052	-	1,500	1,020,196	10,880,748
Public works	741,143	10,500	37,029	197,605	986,277
Health and human services	102,582	1,579	14,945	27,257	146,363
Culture and recreation	149,363	-	11,448	16,793	177,604
Employee benefits	1,677,884	-	-	-	1,677,884
Intergovernmental	13,734	-	-	-	13,734
Debt service	401,055	-	-	-	401,055
	<u>15,037,835</u>	<u>150,601</u>	<u>188,960</u>	<u>1,436,462</u>	<u>16,813,858</u>
Total Expenditures					
Excess (deficiency) of revenues over expenditures	255,769	207,218	79,857	(205,200)	337,644
Other Financing Sources (Uses):					
Transfers in	156,390	-	15,595	186,522	358,507
Transfers out	(241,666)	-	(156,738)	(595)	(398,999)
	<u>(85,276)</u>	<u>-</u>	<u>(141,143)</u>	<u>185,927</u>	<u>(40,492)</u>
Total Other Financing Sources (Uses)					
Change in fund balance	170,493	207,218	(61,286)	(19,273)	297,152
Fund Equity, at Beginning of Year, as reclassified	<u>869,848</u>	<u>1,402,522</u>	<u>484,810</u>	<u>1,124,223</u>	<u>3,881,403</u>
Fund Equity, at End of Year	<u>\$ 1,040,341</u>	<u>\$ 1,609,740</u>	<u>\$ 423,524</u>	<u>\$ 1,104,950</u>	<u>\$ 4,178,555</u>

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

TOWN OF SOUTHAMPTON, 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

Net Changes in Fund Balances - Total Governmental Funds	\$ 297,152						
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td style="padding-left: 40px;">Capital asset purchases</td> <td style="text-align: right;">247,686</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(767,268)</td> </tr> </table> Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures, and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. The issuance of long-term debt (e.g., bonds and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">313,850</td> </tr> </table> Some expenses reported in the statement of activities, such as 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. 	Capital asset purchases	247,686	Depreciation	(767,268)	Repayments of debt	313,850	<p>60,256</p> <p>313,850</p> <p><u>(463,609)</u></p>
Capital asset purchases	247,686						
Depreciation	(767,268)						
Repayments of debt	313,850						
Change in Net Position of Governmental Activities	\$ <u>(311,933)</u>						

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

TOWN OF SOUTHAMPTON, 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			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues and Transfers In:				
Property taxes	\$ 10,679,519	\$ 10,679,519	\$ 10,679,519	\$ -
Excises	855,700	855,700	928,716	73,016
Penalties, interest and other taxes	169,000	169,000	175,121	6,121
Charges for services	65,416	65,416	65,466	50
Intergovernmental	3,177,089	3,177,089	3,190,023	12,934
Licenses and permits	184,550	184,550	230,386	45,836
Fines and forfeitures	8,000	8,000	10,240	2,240
Investment income	6,000	6,000	5,278	(722)
Miscellaneous	-	-	16,226	16,226
Transfers in	156,202	166,202	170,710	4,508
Total Revenues and Transfers In	15,301,476	15,311,476	15,471,685	160,209
Expenditures and Transfers Out:				
General government	637,139	634,558	562,616	71,942
Public safety	1,547,968	1,557,968	1,533,429	24,539
Education	9,903,819	9,903,819	9,867,212	36,607
Public works	797,782	797,782	741,143	56,639
Health and human services	98,022	100,522	95,582	4,940
Culture and recreation	151,625	151,625	149,363	2,262
Employee benefits	1,705,920	1,739,401	1,677,885	61,516
Intergovernmental	13,966	13,966	13,734	232
Debt service	404,953	404,953	401,055	3,898
Transfers out	40,282	206,859	206,859	-
Total Expenditures and Transfers Out	15,301,476	15,511,453	15,248,878	262,575
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	-	(199,977)	222,807	422,784
Other Financing Sources/Uses				
Use of free cash:				
Operating budget	-	33,400	-	(33,400)
Transfer to Stabilization funds	-	144,367	-	(144,367)
Transfer to OPEB fund	-	22,210	-	(22,210)
Total Other Financing Sources/Uses	-	199,977	-	(199,977)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 222,807	\$ 222,807

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 418,181	\$ 17,418	\$ 435,599
User fee receivable, net of allowance	86,314	-	86,314
Total current assets	504,495	17,418	521,913
Noncurrent:			
Land	410,750	179,600	590,350
Capital assets, net of accumulated depreciation	10,015,251	8,090	10,023,341
Total noncurrent assets	10,426,001	187,690	10,613,691
DEFERRED OUTFLOWS OF RESOURCES	29,894	8,609	38,503
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	10,960,390	213,717	11,174,107
LIABILITIES			
Current:			
Warrants payable	18,885	10,284	29,169
Accounts payable	186	95	281
Accrued interest payable	28,722	-	28,722
Current portion of long-term liabilities:			
Bonds payable	146,469	20,000	166,469
Landfill liability	-	10,885	10,885
Total current liabilities	194,262	41,264	235,526
Noncurrent:			
Bonds payable, net of current portion	1,383,560	60,000	1,443,560
Landfill liability, net of current portion	-	97,965	97,965
Accrued compensated absences	5,182	-	5,182
Net OPEB obligation	6,301	-	6,301
Net pension liability	214,170	61,676	275,846
Total noncurrent liabilities	1,609,213	219,641	1,828,854
TOTAL LIABILITIES	1,803,475	260,905	2,064,380
NET POSITION			
Net investment in capital assets	9,104,122	187,690	9,291,812
Unrestricted	52,793	(234,878)	(182,085)
TOTAL NET POSITION	\$ 9,156,915	\$ (47,188)	\$ 9,109,727

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

TOWN OF SOUTHAMPTON, 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		
	Water Fund	Transfer Station Fund	Total
Operating Revenues:			
Charges for services	\$ 568,237	\$ 209,472	\$ 777,709
Other	12,108	-	12,108
Total Operating Revenues	580,345	209,472	789,817
Operating Expenses:			
Salaries and wages	160,556	16,884	177,440
Operating expenses	147,644	129,357	277,001
Depreciation	178,142	501	178,643
Administrative overhead	52,379	13,037	65,416
Total Operating Expenses	538,721	159,779	698,500
Operating Income	41,624	49,693	91,317
Nonoperating Revenues (Expenses):			
Investment income	1,146	-	1,146
Miscellaneous	54,998	8,303	63,301
Interest expense	(80,543)	(4,672)	(85,215)
Total Nonoperating Revenues (Expenses), Net	(24,399)	3,631	(20,768)
Income Before Transfers	17,225	53,324	70,549
Transfers:			
Transfers in	-	18,282	18,282
Change in Net Position	17,225	71,606	88,831
Net Position at Beginning of Year	9,139,690	(118,794)	9,020,896
Net Position at End of Year	\$ 9,156,915	\$ (47,188)	\$ 9,109,727

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Funds		
	Water Fund	Transfer Station Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 646,360	\$ 191,190	\$ 837,550
Payments to vendors and employees	<u>(325,537)</u>	<u>(180,685)</u>	<u>(506,222)</u>
Net Cash Provided By Operating Activities	320,823	10,505	331,328
<u>Cash Flows From Noncapital Financing Activities:</u>			
Investment income	1,146	-	1,146
Other nonoperating income	54,998	8,303	63,301
Transfers in	<u>-</u>	<u>18,282</u>	<u>18,282</u>
Net Cash Provided By Noncapital Financing Activities	56,144	26,585	82,729
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(99,750)	-	(99,750)
Principal payments on bonds and notes	(140,092)	(15,000)	(155,092)
Interest payments	<u>(81,959)</u>	<u>(4,672)</u>	<u>(86,631)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(321,801)</u>	<u>(19,672)</u>	<u>(341,473)</u>
Net Change in Cash and Short-Term Investments	55,166	17,418	72,584
Cash and Short Term Investments, Beginning of Year	<u>363,015</u>	<u>-</u>	<u>363,015</u>
Cash and Short Term Investments, End of Year	<u>\$ 418,181</u>	<u>\$ 17,418</u>	<u>\$ 435,599</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>			
Operating income	\$ 41,624	\$ 49,693	\$ 91,317
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	178,142	501	178,643
Changes in assets and liabilities:			
User fees receivable	66,015	-	66,015
Warrants payable / due to other funds	(38,829)	(7,903)	(46,732)
Landfill liability		(10,885)	(10,885)
Accrued compensated absences	102	-	102
Net OPEB obligation	2,566	(25,026)	(22,460)
Net pension liability and deferrals	<u>71,203</u>	<u>4,125</u>	<u>75,328</u>
Net Cash Provided By Operating Activities	<u>\$ 320,823</u>	<u>\$ 10,505</u>	<u>\$ 331,328</u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	<u>OPEB Trust Fund</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 23,247	\$ 21,997
Investments	<u>52,282</u>	<u>130,623</u>
Total Assets	75,529	152,620
 <u>LIABILITIES</u>		
Other liabilities	<u>-</u>	<u>152,620</u>
Total Liabilities	<u>-</u>	<u>152,620</u>
 <u>NET POSITION</u>		
Total net position held in trust	\$ <u><u>75,529</u></u>	\$ <u><u>-</u></u>

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

TOWN OF SOUTHAMPTON, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	<u>OPEB Trust Fund</u>
Additions:	
Interest income	\$ <u>905</u>
Net increase before transfers	905
Transfers in	<u>22,210</u>
Net increase after transfers	23,115
Net position:	
Beginning of year	<u>52,414</u>
End of year	\$ <u><u>75,529</u></u>

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

Town of Southampton, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Southampton (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 government 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.

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.

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. 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. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *community preservation fund* is a fund authorized by Massachusetts General Laws Chapter 44B, under which the Town

receives State aid and assesses taxpayers a surcharge on real property. Within certain limits, the Town may appropriate funds from this account for various purposes that fall under the categories of open space, historic preservation or community housing.

- The *other special revenue funds* is used to account for the receipt and expenditure of certain Town grant and revolving funds. These include ambulance, community development block grant, and the October 2011 snow storm 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 nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- The *water enterprise fund*, which accounts for operations of the Town's water delivery system.
- The *transfer station enterprise fund*, which accounts for the operations of the Town's landfill.

The *OPEB trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.

The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

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 is 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 consist of certificates of deposit, corporate bonds, corporate equities, mutual funds, and US Treasury notes. These investments are not carried at market value by the Town; however, adjustments have been made to report them at market value in the financial statements.

F. Interfund Receivables and Payables

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

G. Property Tax Limitations

Legislation known as “Proposition 2 ½” limits 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 or debt exemption is voted. The actual fiscal year 2016 tax levy reflected an excess capacity of \$1,731.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings	40
Building improvements	40
Water infrastructure	100
Vehicles and equipment	5 - 10

I. Compensated Absences

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

J. Long-Term Obligations

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

K. Fund Equity

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

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

available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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 (free cash) 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.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and

expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 15,293,604	\$ 15,037,835
Other financing sources/uses (GAAP basis)	<u>156,390</u>	<u>241,666</u>
Subtotal (GAAP basis)	15,449,994	15,279,501
Remove the effect of adding the Town's Stabilization funds per GASB 54	13,174	(34,806)
Adjust tax revenue to accrual basis	8,517	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(17,107)
Add end of year appropriation carryforwards to expenditures	<u>-</u>	<u>21,290</u>
Budgetary basis	<u>\$ 15,471,685</u>	<u>\$ 15,248,878</u>

D. Deficit Fund Equity

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

October 2011 Snow Storm	\$ (80,600)
School Lunch	(16,273)
Transfer Station Enterprise Fund	(47,188)

The deficits in these funds will be eliminated through future departmental or intergovernmental revenues, and/or transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Laws Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent 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." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2016, \$623,691 of the Town's bank balance of \$4,578,082 was exposed to custodial credit risk as it represents the Town's deposit in

repurchase agreements. These deposits are held by the investment's counterparty, and are not in the name of the Town.

4. Investments

A. Credit Risk

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

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

Investment Type	Fair Value	Exempt from Disclosure	Rating as of Year End				
			AAA	AA+	A	A-	BBB+
Certificates of deposit	\$ 407,590	\$ 407,590	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	237,148	26,600	-	-	50,280	60,298	99,970
Corporate equities	217,708	217,708	-	-	-	-	-
Mutual funds	75,263	75,263	-	-	-	-	-
US Treasury notes/ bonds	646,809	-	171,676	475,133	-	-	-
Total Investments	\$ 1,584,518	\$ 727,161	\$ 171,676	\$ 475,133	\$ 50,280	\$ 60,298	\$ 99,970

B. Custodial Credit Risk

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

\$676,928 of the Town's investments are exposed to custodial credit risk because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town does not have investments in any one issuer (other than Federal agency securities) that represent 5% or more of total investments.

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt from Disclosure</u>	<u>Investment Maturities (in Years)</u>		
			<u>Less than 1 year</u>	<u>1-5 years</u>	<u>10+ years</u>
Certificates of deposit	\$ 407,590	\$ -	\$ 49,304	\$ 358,286	\$ -
Corporate bonds	237,148	-	-	221,148	16,000
Corporate equities	217,708	217,708	-	-	-
Mutual funds	75,263	75,263	-	-	-
US Treasury notes/ bonds	646,809	-	-	646,809	-
Total Investments	<u>\$ 1,584,518</u>	<u>\$ 292,971</u>	<u>\$ 49,304</u>	<u>\$ 1,226,243</u>	<u>\$ 16,000</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk; however, the risk is managed by limiting the investments to the Commonwealth's "Legal List of Investments".

F. Fair Value

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

The Town has the following fair value measurements as of June 30, 2016:

Description	Fair Value	Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury securities	\$ 646,809	\$ -	\$ 646,809	\$ -
Corporate bonds	237,148	-	237,148	-
Equity securities	217,708	217,708	-	-
Mutual funds	75,263	75,263	-	-
Total	\$ 1,176,928	\$ 292,971	\$ 883,957	\$ -

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 quarterly 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 in the general fund at June 30, 2016 consist of the following:

Real Estate and Personal Property		
2016	\$ 101,559	
2015 and prior	<u>9,284</u>	110,843
Supplemental		<u>12,006</u>
Total		\$ <u>122,849</u>

6. Allowance for Doubtful Accounts

The ambulance receivable balance reported in the accompanying governmental funds balance sheet is presented net of allowance for

uncollectible of \$38,137. In addition, the water receivables reported in the accompanying statement of net position are presented net of allowance for uncollectable of \$10,016.

7. Intergovernmental Receivables

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

8. Loans Receivable

This balance represents loans to taxpayers for septic improvements granted under a State-sponsored Title V loan program.

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>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 27,546,599	\$ -	\$ -	\$ 27,546,599
Machinery, equipment and furnishings	3,191,898	160,272	(19,750)	3,332,420
Infrastructure	-	67,699	-	67,699
	<u>30,738,497</u>	<u>227,971</u>	<u>(19,750)</u>	<u>30,946,718</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(22,656,869)	(560,157)	-	(23,217,026)
Machinery, equipment and furnishings	(2,322,883)	(203,726)	19,750	(2,506,859)
Infrastructure	-	(3,385)	-	(3,385)
	<u>(24,979,752)</u>	<u>(767,268)</u>	<u>19,750</u>	<u>(25,727,270)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	5,758,745	(539,297)	-	5,219,448
Capital assets, not being depreciated:				
Land	7,467,600	-	-	7,467,600
Construction in progress (CIP)	-	19,715	-	19,715
	<u>7,467,600</u>	<u>19,715</u>	<u>-</u>	<u>7,487,315</u>
Total capital assets, not being depreciated				
Governmental activities capital assets, net	<u>\$ 13,226,345</u>	<u>\$ (519,582)</u>	<u>\$ -</u>	<u>\$ 12,706,763</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,329,025	\$ -	\$ -	\$ 1,329,025
Machinery, equipment and furnishings	65,266	57,900	-	123,166
Infrastructure	<u>12,203,977</u>	<u>-</u>	<u>-</u>	<u>12,203,977</u>
Total capital assets, being depreciated	13,598,268	57,900	-	13,656,168
Less accumulated depreciation for:				
Buildings and improvements	(1,053,163)	(38,496)	-	(1,091,659)
Machinery, equipment, and furnishings	(13,425)	(18,107)	-	(31,532)
Infrastructure	<u>(2,387,596)</u>	<u>(122,040)</u>	<u>-</u>	<u>(2,509,636)</u>
Total accumulated depreciation	<u>(3,454,184)</u>	<u>(178,643)</u>	<u>-</u>	<u>(3,632,827)</u>
Total capital assets, being depreciated, net	10,144,084	(120,743)	-	10,023,341
Capital assets, not being depreciated:				
Land	548,500	-	-	548,500
Construction in progress (CIP)	<u>-</u>	<u>41,850</u>	<u>-</u>	<u>41,850</u>
Total capital assets, not being depreciated	<u>548,500</u>	<u>41,850</u>	<u>-</u>	<u>590,350</u>
Business-type activities capital assets, net	<u>\$ 10,692,584</u>	<u>\$ (78,893)</u>	<u>\$ -</u>	<u>\$ 10,613,691</u>

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

Governmental Activities:	
General government	\$ 473,096
Public safety	86,309
Education	45,300
Public works	115,370
Health and human services	5,431
Culture and recreation	<u>41,762</u>
Total depreciation expense - governmental activities	<u>\$ 767,268</u>
Business-Type Activities:	
Water	\$ 178,142
Transfer Station	<u>501</u>
Total depreciation expense - business-type activities	<u>\$ 178,643</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 following is a summary of deferred outflow of resources balances as of June 30, 2016:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<u>Pension related:</u>		
Net difference between projected and actual investment earnings	\$ 673,480	\$ 28,574
Changes in assumptions	<u>234,036</u>	<u>9,929</u>
	<u>\$ 907,516</u>	<u>\$ 38,503</u>

11. Warrants and Accounts Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016. Accounts payable represent additional 2016 expenditures paid after July 15, 2016.

12. Anticipation Notes Payable

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

	<u>Interest Rate %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2016</u>
Grant anticipation	0.64%	07/24/15	07/22/16	\$ 80,600
MCWT septic program note	0.00%	05/21/15	n/a	<u>50,000</u>
				<u>\$ 130,600</u>

The following summarizes activity in 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>
Grant anticipation	\$ 95,600	\$ 80,600	\$ (95,600)	\$ 80,600
MCWT note	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Total	<u>\$ 145,600</u>	<u>\$ 80,600</u>	<u>\$ (95,600)</u>	<u>\$ 130,600</u>

13. Long-Term Debt

A. General Obligation Bonds

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

<u>Bonds Payable -</u> <u>Governmental Activities:</u>	Serial Maturities <u>Through</u>	Interest <u>Rate(s)%</u>	Amount Outstanding as of <u>June 30, 2016</u>
MWPAT - Pequot Pond Sewer	08/01/19	1.0 - 2.0	\$ 80,000
MWPAT - Title V Loans	08/01/20	1.0 - 2.0	51,800
MWPAT - Septic Betterment	07/15/25	-	75,000
MWPAT - Septic Betterment	07/15/27	-	30,000
Larrabee Renovation	06/30/30	2.0 - 5.0	<u>1,525,000</u>
Total Bonds Payable - Governmental Activities			1,761,800

<u>Bonds Payable -</u> <u>Business-Type Activities:</u>	Serial Maturities <u>Through</u>	Interest <u>Rate(s)%</u>	Amount Outstanding as of <u>June 30, 2016</u>
MWPAT - Landfill capping	08/01/19	1.0 - 2.0	80,000
MWPAT - Country Road (Water)	08/01/19	1.0 - 2.0	250,000
MWPAT - Water system upgrade	08/01/22	1.0 - 2.0	455,000
Water system expansion (RDA Loan)	04/06/33	5.63	325,128
Water system expansion # 3 (RDA Loan)	10/01/35	5.38	<u>499,901</u>
Total Bonds Payable - Business-Type Activities			<u>1,610,029</u>
Total Bonds Payable			<u>\$ 3,371,829</u>

<u>Notes Payable -</u> <u>Governmental Activities:</u>	Intended Maturities <u>Through</u>	Interest <u>Rate(s)%</u>	Amount Outstanding as of <u>June 30, 2016</u>
School roof *	2017	0.92	\$ 105,800
Fire department truck *	2020	4.25	<u>269,000</u>
Total Notes Payable - Governmental Activities			<u>\$ 374,800</u>

* These borrowings are a combination of several short-term notes intended to finance these purchases over a period of time. This is being accomplished by rolling over a series of short-term notes for lesser amounts each year. The interest rate reported is the interest rate for the short-term note issued in fiscal year 2016 and due in fiscal year 2017.

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 310,850	\$ 74,790	\$ 385,640
2018	311,850	65,959	377,809
2019	176,850	58,249	235,099
2020	176,850	52,117	228,967
2021	130,200	45,168	175,368
2022 - 2026	600,000	154,322	754,322
2027 - 2030	430,000	43,560	473,560
Total	\$ <u>2,136,600</u>	\$ <u>494,165</u>	\$ <u>2,630,765</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 166,469	\$ 54,189	\$ 220,658
2018	167,922	49,930	217,852
2019	179,453	46,187	225,640
2020	181,070	43,560	224,630
2021	97,776	40,814	138,590
2022 - 2026	332,917	166,036	498,953
2027 - 2031	252,001	106,134	358,135
Thereafter	232,421	34,213	266,634
Total	\$ <u>1,610,029</u>	\$ <u>541,063</u>	\$ <u>2,151,092</u>

C. Changes in General Long-Term Liabilities

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

	<u>Total Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance June 30, 2016</u>	<u>Less Current Portion</u>	<u>Long-Term Portion June 30, 2016</u>
<u>Governmental Activities</u>						
Notes payable	\$ 538,250	\$ -	\$ (163,450)	\$ 374,800	\$ (160,450)	\$ 214,350
Bonds payable	1,912,200	-	(150,400)	1,761,800	(150,400)	1,611,400
Other:						
Accrued compensated absences	144,622	15,636	-	160,258	-	160,258
Net OPEB obligation	1,712,363	317,311	-	2,029,674	-	2,029,674
Net pension liability	5,951,038	550,658	-	6,501,696	-	6,501,696
Totals	\$ <u>10,258,473</u>	\$ <u>883,605</u>	\$ <u>(313,850)</u>	\$ <u>10,828,228</u>	\$ <u>(310,850)</u>	\$ <u>10,517,378</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 1,765,121	\$ -	\$ (155,092)	\$ 1,610,029	\$ (166,469)	\$ 1,443,560
Other:						
Landfill liability	119,735	-	(10,885)	108,850	(10,885)	97,965
Accrued compensated absences	5,080	102	-	5,182	-	5,182
Net OPEB obligation	28,761	-	(22,460)	6,301	-	6,301
Net pension liability	176,472	99,374	-	275,846	-	275,846
Totals	\$ <u>2,095,169</u>	\$ <u>99,476</u>	\$ <u>(188,437)</u>	\$ <u>2,006,208</u>	\$ <u>(177,354)</u>	\$ <u>1,828,854</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>Hampshire Regional School District:</u>			
Hampshire Regional HS	\$ <u>1,925,000</u>	57.47%	\$ <u>1,106,298</u>

14. Landfill 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 Town stopped accepting waste and the closure process was completed in fiscal year 1996. Closure costs were funded by permanent bonds and a State grant. Monitoring costs are expected to be funded through annual appropriations.

The Town estimates its post-closure care liability at June 30, 2016 to be \$108,850, which represents the estimated annual monitoring costs of \$10,885 for the next 10 years. This amount is based on what it would cost to perform all post-closure care in 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net 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 deferred inflows of resources balance as of June 30, 2016 in the governmental funds consists of unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Except for the real estate and personal property taxes that are accrued for subsequent 60 day collections, the

balances of governmental funds deferred inflows account are equal to the total of all June 30, 2016 receivable balances.

16. Interfund Fund Accounts

Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2016 balances in interfund receivable and payable accounts:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 74,172	\$ -
Special revenue non-major fund	<u>-</u>	<u>74,172</u>
Total	<u>\$ 74,172</u>	<u>\$ 74,172</u>

Transfers

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

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 156,390	\$ 241,666
Other special revenue funds	15,595	156,738
Nonmajor funds:		
Special revenue funds	348	-
Capital project funds	<u>186,174</u>	<u>595</u>
Subtotal Nonmajor Funds	186,522	595
 <u>Business-Type Funds:</u>		
Transfer Station fund	18,282	-
 <u>Fiduciary Funds:</u>		
OPEB trust fund	<u>22,210</u>	<u>-</u>
Grand Total	<u>\$ 398,999</u>	<u>\$ 398,999</u>

17. **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.

18. **Governmental Funds – Balances**

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

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

The following types of fund balances are reported at June 30, 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 nonmajor governmental fund reserves for 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 capital projects funded by appropriation and stabilization and the balance in the community preservation fund.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various

Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods and deficit fund balances.

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

	<u>General Fund</u>	<u>Community Preservation Fund</u>	<u>Other Special Revenue Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable					
Nonexpendable					
permanent funds	\$ -	\$ -	\$ -	\$ 364,792	\$ 364,792
Total Nonspendable	-	-	-	364,792	364,792
Restricted					
Special revenue funds	-	-	504,124	516,310	1,020,434
Expendable permanent funds	-	-	-	163,905	163,905
Total Restricted	-	-	504,124	680,215	1,184,339
Committed					
Community preservation fund	-	1,609,740	-	-	1,609,740
Capital projects funded by appropriation	-	-	-	76,216	76,216
Total Committed	-	1,609,740	-	76,216	1,685,956
Assigned					
Reserve for encumbrances	21,290	-	-	-	21,290
Total Assigned	21,290	-	-	-	21,290
Unassigned					
General fund	562,603	-	-	-	562,603
Stablization funds *	456,448	-	-	-	456,448
Deficit fund balances	-	-	(80,600)	(16,273)	(96,873)
Total Unassigned	1,019,051	-	(80,600)	(16,273)	922,178
Total Fund Balance	\$ 1,040,341	\$ 1,609,740	\$ 423,524	\$ 1,104,950	\$ 4,178,555

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

19. Subsequent Events

Debt

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

	<u>Amount</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>
Grant anticipation	\$ 65,600	0.85%	07/22/16	07/21/17
MCWT Septic Loan	<u>50,000</u>	0.00%	09/20/16	n/a
	<u>\$ 115,600</u>			

20. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues 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 audited 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 \$21 million.

21. Post-Employment Health Care and Life Insurance 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 revenues, expenses, and changes in net position 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, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. As of June 30, 2016, the actuarial valuation date, approximately 71 retirees and 114 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, dental 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

As of the date of the actuarial, retirees contributed 50% of the cost of the health plan, based on the type of 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 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 June 30, 2016.

	Governmental Activities	Water Fund	Transfer Station Fund	Total
Annual Required Contribution (ARC)	\$ 495,705	\$ 4,351	\$ -	\$ 500,056
Interest on net OPEB obligation	69,039	606	-	69,645
Amortization of NOO	<u>(57,532)</u>	<u>(505)</u>	<u>-</u>	<u>(58,037)</u>
Annual OPEB cost	507,212	4,452	-	511,664
Contributions made	(214,927)	(1,886)	-	(216,813)
Change in personnel	<u>25,026</u>	<u>-</u>	<u>(25,026)</u>	<u>-</u>
Increase in net OPEB obligation	317,311	2,566	(25,026)	294,851
Net OPEB obligation - beginning of year	<u>1,712,363</u>	<u>3,735</u>	<u>25,026</u>	<u>1,741,124</u>
Net OPEB obligation - end of year	<u>\$ 2,029,674</u>	<u>\$ 6,301</u>	<u>\$ -</u>	<u>\$ 2,035,975</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	OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 511,664	57.6%	\$ 2,035,975
2015	\$ 811,858	29.8%	\$ 1,741,124
2014	\$ 766,632	23.2%	\$ 1,171,417
2013	\$ 723,353	19.5%	\$ 582,616

The Town's net OPEB obligation as of June 30, 2016 is recorded as a long-term liability in both the governmental and business-type activities.

In May 2013 the Town established an OPEB Trust Fund under MGL Chapter 32B, Section 20 and as of June 30, 2016, the Town has contributed \$75,529 towards this liability. This amount is reported in the OPEB trust fund.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2016, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 7,918,957
Actuarial value of plan assets	<u>75,529</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 7,843,428</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.96%</u>
Covered payroll (active plan members)	<u>\$ 5,540,362</u>
UAAL as a percentage of covered payroll	<u>141.6%</u>

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2016 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town had not advance funded its obligation at that time. The actuarial assumptions include a 4% investment rate of return and an initial annual healthcare cost trend rate of 6.0% which decreases to a 4.5% long-term rate for all healthcare benefits after three 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 4%.

22. Hampshire County Retirement System

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

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Hampshire Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system

(PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System 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 99 Industrial Avenue Northampton, MA 01060.

Participant Retirement Benefits

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

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

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

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they

generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

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

Participants Contributions

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

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

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

Employer Contributions

The Town's contribution to the System for the year ended June 30, 2016 was \$607,900, 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 approximately \$6.8 million 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, rolled forward to December 31, 2015. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Town's proportion was 3.26 percent.

For the year ended June 30, 2016, the Town recognized pension expense of \$813,890. In addition, the Town reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 702,054
Changes in proportion and differences between pension contributions and proportionate share of contributions	<u>243,965</u>
Total	<u>\$ 946,019</u>

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

Year ended June 30:	
2017	\$ 201,001
2018	201,001
2019	201,001
2020	201,001
2021	25,487
Thereafter	<u>116,528</u>
Total	<u>\$ 946,019</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/2014
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.875%
Projected salary increases	4.5-7.5%
Inflation rate	3.00%
Post-retirement cost-of-living adjustment	3% of first \$13,000

Mortality rates were based on the RP2000 Table projected 19 years with Scale BB.

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 ending December 31, 2013.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the 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 each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	2.00%	0.00%
Large Cap Equities	11.00%	4.37%
Small/Mid Cap Equities	6.00%	4.61%
International Equities	13.50%	4.85%
Emerging Equities	7.00%	6.31%
Core Bonds	7.00%	0.86%
High-Yield Bonds	5.00%	2.67%
Global Bonds	3.00%	-0.24%
EMD (Local Currency)	6.00%	3.40%
Bank Loans	4.00%	2.91%
Private Equity	10.00%	6.31%
Private Debt	3.00%	4.85%
Real Estate (Core)	10.00%	3.40%
Hedge Funds	5.00%	3.40%
Global Asset Allocation	7.50%	2.61%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.875%. 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 7.875 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 (6.875%) or 1 percentage-point higher (8.875%) than the current rate (in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.875%)</u>	<u>Current Discount Rate (7.875%)</u>	<u>1% Increase (8.875%)</u>
June 30, 2016	\$8,434	\$6,778	\$5,466

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.

23. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter

schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	2.4%
Private equity	10.0%	8.5%
Real estate	10.0%	6.5%
Value added fixed income	10.0%	5.8%
Hedge funds	9.0%	5.8%
Portfolio completion strategies	4.0%	5.5%
Timber/natural resources	4.0%	6.6%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current 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 Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 8.50%</u>
June 30, 2015	\$25,449,000	\$20,489,643	\$16,221,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the

employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2015 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the Town was \$9,208,081 and \$746,857 respectively, based on a proportionate share of 0.04%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide statement of activities.

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 Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2016, as defined by GASB Statement No. 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

<u>Fund Basis</u>	<u>Fund Balance 06/30/15 as Previously Reported</u>	<u>Reclassify Major Funds in Accordance with GASB 34</u>	<u>Fund Balance 06/30/15 as Reclassified</u>
Other special revenue funds	\$ -	\$ 484,810	\$ 484,810
Nonmajor governmental funds	<u>1,609,033</u>	<u>(484,810)</u>	<u>1,124,223</u>
Total	<u>\$ 1,609,033</u>	<u>\$ -</u>	<u>\$ 1,609,033</u>

26. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 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 SOUTHAMPTON, MASSACHUSETTS
 SCHEDULE OF OPEB FUNDING PROGRESS
 REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

(Unaudited)

(Amounts expressed in thousands)

Other Post-Employment Benefits

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]
06/30/16	\$76	\$7,919	\$7,843	0.97%	\$5,540	141.6%
06/30/13	-	\$9,217	\$9,217	0.00%	\$5,371	171.6%

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS
 SCHEDULE OF PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

(Unaudited)

(Amounts express in thousands)

Hampshire County 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	3.26%	\$6,778	\$2,766	245.05%	55.29%
June 30, 2015	3.28%	\$6,128	\$2,638	232.30%	58.07%

Massachusetts Teachers' Retirement System

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town	Total Net Pension Liability Associated with the Town	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	0.04%	-	\$9,208	\$9,208	\$2,849	-	55.38%
June 30, 2015	0.05%	-	\$7,700	\$7,700	\$2,970	-	61.64%

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

See Independent Auditors' Report.

TOWN OF SOUTHAMPTON, MASSACHUSETTS
SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016
(Unaudited)
(Amounts expressed in thousands)

Hampshire County Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 608	\$ 608	-	\$ 2,766	21.98%
June 30, 2015	\$ 573	\$ 573	-	\$ 2,638	21.72%

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

See Independent Auditors' Report.