

**TURNERS FALLS FIRE DISTRICT**

Annual Financial Statements

For the Year Ended June 30, 2016

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**Additional Offices:**

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

## INDEPENDENT AUDITORS' REPORT

To the Prudential Committee  
Turners Falls Fire District  
Turners Falls, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Turners Falls Fire District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Turners Falls Fire District, as of June 30, 2016, and the respective changes in financial position 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Melanson Heath*

March 20, 2017

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

As management of the Turners Falls Fire District, we offer readers this narrative overview and analysis of the financial activities of the District 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 basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 government'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).

The governmental activities include general government, public safety, and water.

**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 two categories: governmental 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.

**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 District'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 \$4,651,114 (i.e., Net Position), a change of \$(22,455) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$1,555,170, a change of \$1,061,976 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$721,212, a change of \$59,018 in comparison with the prior year.
- Total long-term debt (i.e., notes and loans payable) at the close of the current fiscal year was \$1,648,711, a change of \$697,268 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>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 1,731,331	\$ 1,418,644
Capital assets	6,773,962	7,045,872
Deferred outflows	303,075	7,290
Total Assets	<u>8,808,368</u>	<u>8,471,806</u>
Long-term liabilities outstanding	4,073,881	2,946,759
Other liabilities	83,373	851,478
Total Liabilities	<u>4,157,254</u>	<u>3,798,237</u>
Net position:		
Invested in capital assets, net	5,125,251	5,388,985
Restricted	699,197	508,340
Unrestricted	<u>(1,173,334)</u>	<u>(1,223,756)</u>
Total Net Position	<u>\$ 4,651,114</u>	<u>\$ 4,673,569</u>

#### CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 755,236	\$ 676,795
Operating grants and contributions	12,175	33,650
Capital grants and contributions	-	34,571
General revenues:		
Property taxes	2,001,018	1,926,667
Penalties and interest on taxes	13,397	14,265
Investment income	4,542	2,821
Loss on sale of asset	-	(9,633)
Other	20,519	5,594
Total Revenues	<u>2,806,887</u>	<u>2,684,730</u>
Expenses:		
General government	685,775	620,530
Public safety	1,261,552	1,150,861
Public works	625,438	578,903
Employee benefits	1,285	-
Interest	34,874	37,345
Unallocated depreciation	200,418	170,221
Total Expenses	<u>2,809,342</u>	<u>2,557,860</u>
Change in net position before transfers	(2,455)	126,870
Transfer (out)	<u>(20,000)</u>	<u>(20,000)</u>
Change in net position	(22,455)	106,870
Net position - beginning of year	<u>4,673,569</u>	<u>4,566,699</u>
Net position - end of year	<u>\$ 4,651,114</u>	<u>\$ 4,673,569</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 \$4,651,114, a change of \$(22,455) from the prior year.

The largest portion of net position \$5,125,251 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$699,197 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position was a deficit of \$(1,173,334).

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(22,455). Key elements of this change are as follows:

- General fund operations, as discussed further in section D \$165,675.
- Water fund revenues and loan proceeds over expenditures \$890,299.
- Special revenue fund revenues over expenditures \$6,002.
- Depreciation expense in excess of principal debt service expense \$(201,116) and reversal of loan proceeds from revenue of \$(794,103).
- Capital asset additions funded by water surplus of \$26,041.
- Current year change in net pension liability, net of deferred outflows of \$(1,285).
- Current year change in other post-employment benefits liability \$(119,670).
- Other GAAP accruals \$5,702.

#### **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 \$1,555,170, a change of \$1,061,976 in comparison with the prior year. Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$ 165,675
Water fund revenue and loan proceeds in excess of expenditures	890,299
Special revenue fund revenues in excess of expenditures	<u>6,002</u>
Total	<u>\$ 1,061,976</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 \$721,212, while total fund balance was \$855,973. 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>
General fund - unassigned	\$ 620,774	\$ 562,249	\$ 58,525	33%
Stabilization fund	<u>100,438</u>	<u>99,945</u>	<u>493</u>	<u>5%</u>
Total unassigned	\$ 721,212	\$ 662,194	\$ 59,018	39%
Total fund balance	855,973	690,298	165,675	46%

The total fund balance of the general fund changed by \$165,675 during the current fiscal year. Key factors in this change are as follows:

Non property tax revenues under budget	\$ 27,839
Excess (shortfall) of property tax collections	80,805
Expenditures less than budget	138,984
Use of fund balance as a funding source	(110,000)
Expenditures in the current year, funded by a previous year budget	(28,104)
Current year expenditure carryforwards to be expended in a subsequent year	103,875
Stabilization interest income	493
Articles (appropriations) not funded on the tax recap	(59,460)
Other GAAP accruals	<u>11,243</u>
Total	<u>\$ 165,675</u>

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

There were no significant differences between the original budget and the final amended budget.

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

**Capital assets.** Total investment in capital assets for governmental activities at year end amounted to \$6,773,962 (net of accumulated depreciation), a decrease of \$(271,910) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- Well construction in progress \$20,381.
- Mapping system for the District of \$5,660.
- Depreciation expense of \$(297,951).

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

**Long-term debt.** At the end of the current fiscal year, total long-term debt outstanding was \$1,648,711 , all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the footnotes to the financial statements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District'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. Eileen Tela, District Accountant  
Turners Falls Fire District  
226 Millers Falls Road  
Turners Falls, MA 01376

TURNERS FALLS FIRE DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 1,543,980
Receivables, net of allowance for uncollectibles:	
Property taxes	83,671
User fees	37,826
Departmental	13,336
Intergovernmental	13,426
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	39,092
Land and construction in progress	613,161
Capital assets, net of accumulated depreciation	6,160,801
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>303,075</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	8,808,368
<b>LIABILITIES</b>	
Current:	
Warrants payable	28,265
Accrued payroll and withholdings	27,719
Accrued interest payable	14,418
Other current liabilities	12,971
Current portion of long-term liabilities:	
Loans payable	49,636
Note payable	124,000
Noncurrent:	
Loans payable, net of current portion	1,048,075
Notes payable, net of current portion	427,000
Compensated absences	165,541
Net OPEB obligation	990,790
Net pension liability	<u>1,268,839</u>
<b>TOTAL LIABILITIES</b>	4,157,254
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	5,125,251
Restricted for:	
Grants and other statutory restrictions	699,197
Unrestricted	<u>(1,173,334)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 4,651,114</u>

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

TURNERS FALLS FIRE DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
General government	\$ 685,775	\$ -	\$ -	\$ (685,775)
Public safety	1,261,552	59,619	12,175	(1,189,758)
Public works	625,438	695,617	-	70,179
Employee benefits	1,285	-	-	(1,285)
Interest	34,874	-	-	(34,874)
Unallocated depreciation	200,418	-	-	(200,418)
Total	\$ 2,809,342	\$ 755,236	\$ 12,175	(2,041,931)
		<b>General Revenues:</b>		
				2,001,018
				13,397
				4,542
				20,519
				(20,000)
				2,019,476
				(22,455)
		<b>Net Position:</b>		
				4,673,569
				\$ 4,651,114

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

TURNERS FALLS FIRE DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Water</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 892,064	\$ 615,965	\$ 35,951	\$ 1,543,980
Receivables:				
Property taxes	87,382	-	-	87,382
Tax liens and foreclosures	75,257	-	-	75,257
User fees	-	37,826	-	37,826
Departmental	3,476	-	9,860	13,336
Intergovernmental	-	13,426	-	13,426
TOTAL ASSETS	<u>\$ 1,058,179</u>	<u>\$ 667,217</u>	<u>\$ 45,811</u>	<u>\$ 1,771,207</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants payable	\$ 24,236	\$ 4,029	\$ -	\$ 28,265
Accrued payroll and withholdings	24,124	3,595	-	27,719
Other liabilities	6,764	5,112	1,095	12,971
TOTAL LIABILITIES	55,124	12,736	1,095	68,955
DEFERRED INFLOWS OF RESOURCES	147,082	-	-	147,082
Fund Balances:				
Reserved for:				
Restricted	-	296,235	2,559	298,794
Committed	103,875	358,246	42,157	504,278
Assigned	30,886	-	-	30,886
Unassigned	721,212	-	-	721,212
TOTAL FUND BALANCES	<u>855,973</u>	<u>654,481</u>	<u>44,716</u>	<u>1,555,170</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,058,179</u>	<u>\$ 667,217</u>	<u>\$ 45,811</u>	<u>\$ 1,771,207</u>

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

TURNERS FALLS FIRE DISTRICT  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
 BALANCES TO NET POSITION OF GOVERNMENTAL  
 ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2016

<b>Total Governmental Fund Balances</b>	\$ 1,555,170
<ul style="list-style-type: none"> <li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li> </ul>	6,773,962
<ul style="list-style-type: none"> <li>• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.</li> </ul>	303,075
<ul style="list-style-type: none"> <li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection and are net of an allowance for uncollectible.</li> </ul>	107,206
<ul style="list-style-type: none"> <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	(14,418)
<ul style="list-style-type: none"> <li>• Long-term liabilities, including notes and loans payable, compensated absences, net OPEB obligation and net pension liability are not due and payable in the current period and therefore, are not reported in the governmental funds.</li> </ul>	<u>(4,073,881)</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 4,651,114</u></u></b>

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

TURNERS FALLS FIRE DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Water</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 1,986,009	\$ -	\$ -	\$ 1,986,009
Penalties, interest and other taxes	13,397	-	-	13,397
Charges for services	18,874	695,617	40,745	755,236
Intergovernmental	-	-	12,175	12,175
Investment income	4,542	-	-	4,542
Miscellaneous	20,519	-	-	20,519
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	2,043,341	695,617	52,920	2,791,878
<b>Expenditures:</b>				
Current:				
General government	679,478	-	-	679,478
Public safety	1,042,672	-	41,918	1,084,590
Public works	-	604,421	-	604,421
Debt service	135,516	-	-	135,516
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	1,857,666	604,421	41,918	2,504,005
Excess (deficiency) of revenues over expenditures	185,675	91,196	11,002	287,873
<b>Other Financing Sources (Uses):</b>				
Loan proceeds	-	794,103	-	794,103
Proceeds of refunding loan	450,000	-	-	450,000
Payment to lending agent	(450,000)	-	-	(450,000)
Transfers in	-	5,000	-	5,000
Transfers out	(20,000)	-	(5,000)	(25,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(20,000)	799,103	(5,000)	774,103
Change in fund balance	165,675	890,299	6,002	1,061,976
Fund Equity, at Beginning of Year	690,298	(235,818)	38,714	493,194
Fund Equity, at End of Year	<u>\$ 855,973</u>	<u>\$ 654,481</u>	<u>\$ 44,716</u>	<u>\$ 1,555,170</u>

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



TURNERS FALLS FIRE DISTRICT

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**

\$ 1,061,976

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay purchases	26,041
Depreciation	(297,951)

- 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 property tax receivables differ between the two statements. This amount represents the net change in deferred revenue, net of allowance for uncollectibles.

15,009

- The issuance of long-term debt (e.g., bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Issuance of debt	(794,103)
Repayments of debt	96,835

- In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

3,807

- Some expenses reported in the Statement of Activities, such as 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.

(134,069)

**Change in Net Position of Governmental Activities**

\$ (22,455)

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

TURNERS FALLS FIRE DISTRICT

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Taxes	\$ 1,905,204	\$ 1,905,204	\$ 1,905,204	\$ -
Penalties, interest and other taxes	12,500	12,500	13,397	897
Charges for services	13,500	13,500	18,874	5,374
Investment income	2,000	2,000	4,049	2,049
Miscellaneous	1,000	1,000	20,519	19,519
Other sources	110,000	110,000	110,000	-
Total Revenues and Other Sources	2,044,204	2,044,204	2,072,043	27,839
<b>Expenditures and Other Uses:</b>				
General government	735,707	735,707	679,828	55,879
Public safety	1,137,957	1,137,957	1,129,336	8,621
Debt service	190,000	190,000	135,516	54,484
Transfers out and other uses	40,000	40,000	20,000	20,000
Total Expenditures and Other Uses	2,103,664	2,103,664	1,964,680	138,984
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ (59,460)	\$ (59,460)	\$ 107,363	\$ 166,823

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

TURNERS FALLS FIRE DISTRICT  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016

	OPEB Trust <u>Fund</u>
<b><u>ASSETS</u></b>	
Cash and short-term investments	\$ <u>40,066</u>
Total Assets	<u>40,066</u>
 <b><u>NET POSITION</u></b>	
Total Net Position	\$ <u><u>40,066</u></u>

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

TURNERS FALLS FIRE DISTRICT

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	<u>OPEB</u> <u>Trust Fund</u>
<b>Additions</b>	
Investment income	\$ <u>61</u>
Net increase, before transfers	61
Transfer in	<u>20,000</u>
Net increase, after transfers	20,061
<b>Net position</b>	
Beginning of year	<u>20,005</u>
End of year	\$ <u><u>40,066</u></u>

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

# TURNERS FALLS FIRE DISTRICT

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the Turners Falls Fire District (the District) 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 government is a municipal corporation governed by an elected Board of Commissioners. 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-39 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* are normally supported by taxes, fees and intergovernmental revenues.

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

Major individual governmental funds are reported as separate columns in the fund financial statements.

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

#### Government-Wide Financial Statements

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

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

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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 government 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 *water fund* is used to account for all water revenues and related expenses, except for debt service, which is accounted for in the general fund.

- The *special revenue fund* is used to account for federal and state grant activity.

The *OPEB trust fund* accumulates resources for other post-employment retiree benefits for qualified employees.

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

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue 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.

#### E. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with initial individual costs as detailed below 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.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>	Initial Cost <u>Over</u>
Land improvements	20	\$ 25,000
Buildings	40	100,000
Building improvements	20	50,000
Water/sewer infrastructure	50	150,000
Vehicles and equipment	5	5,000

*F. Compensated Absences*

It is the government'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 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.

*G. Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

*H. 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 District 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 District'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., District 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 District 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, consist 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 are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All remaining net position is reported as unrestricted.

### *1. 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 District 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 District

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 District 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 total departmental budget as voted. Certain items may exceed the departmental budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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)	\$ 2,043,341	\$ 1,857,666
Other financing sources/uses (GAAP basis)	450,000	470,000
Remove the effect of consolidating the Stabilization and General Fund	(493)	-
Adjust tax revenue to accrual basis	(80,805)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(28,104)
Add end of year appropriation carryforwards to expenditures	-	103,875
Reverse GAAP adjustments	-	11,243
Adjust for debt refunding	(450,000)	(450,000)
Recognize use of fund balance as funding source	<u>110,000</u>	<u>-</u>
Budgetary basis	<u>\$ 2,072,043</u>	<u>\$ 1,964,680</u>

#### D. Unfunded Appropriations

The District's fiscal year 2016 budgeted uses exceeded budgeted sources by \$(59,460) which represents two articles (totaling \$25,460) and the Ambulance fund appropriation (\$34,000) that were voted by District Meeting but were inadvertently omitted from the tax recap. Consequently these appropriations were not funded in the current year.

### **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 District'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 District does not have a deposit policy for custodial credit risk.

As of June 30, 2016, none of the District's bank balance of \$1,599,882 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the District's name.

### **4. 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

Town of Montague's Board of Assessors for 100% of the estimated fair market value. Taxes are due on a semiannual basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

Taxes receivable at June 30, 2016 consist of the following:

Real Estate		
2016	\$ 51,937	
2015	19,249	
2014	4,496	
Prior	<u>424</u>	
		76,106
Personal Property		
2016	11,022	
2015	<u>254</u>	
		<u>11,276</u>
Total Current Property Tax		<u>\$ 87,382</u>
Tax Title		\$ 33,029
Foreclosures		<u>42,228</u>
Total Non-Current Property Tax		<u>\$ 75,257</u>

## 5. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect an estimated allowance for doubtful accounts for current property tax of \$3,711 and tax liens and foreclosures of \$36,165.

## 6. Intergovernmental Receivables

This balance represents the residual balance of a loan authorized and issued by the Massachusetts Clean Water Trust in fiscal year 2016, but not requested or received by the District. The receivable will be eliminated when the corresponding loan is deobligated by the Trust.

## 7. Capital Assets

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

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	Ending <u>Balance</u>
<b>Governmental Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 823,160	\$ -	\$ -	\$ -	\$ 823,160
Machinery, equipment, and furnishings	1,652,769	5,660	(52,500)	-	1,605,929
Infrastructure	<u>8,000,973</u>	<u>-</u>	<u>-</u>	<u>1,509,844</u>	<u>9,510,817</u>
Total capital assets, being depreciated	10,476,902	5,660	(52,500)	1,509,844	11,939,906
Less accumulated depreciation for:					
Buildings and improvements	(623,423)	(12,817)	-	-	(636,240)
Machinery, equipment, and furnishings	(1,014,220)	(97,533)	52,500	-	(1,059,253)
Infrastructure	<u>(3,896,011)</u>	<u>(187,601)</u>	<u>-</u>	<u>-</u>	<u>(4,083,612)</u>
Total accumulated depreciation	<u>(5,533,654)</u>	<u>(297,951)</u>	<u>52,500</u>	<u>-</u>	<u>(5,779,105)</u>
Total capital assets, being depreciated, net	4,943,248	(292,291)	-	1,509,844	6,160,801
Capital assets, not being depreciated:					
Land	613,161	-	-	-	613,161
Construction in progress (CIP)	<u>1,489,463</u>	<u>20,381</u>	<u>-</u>	<u>(1,509,844)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,102,624</u>	<u>20,381</u>	<u>-</u>	<u>(1,509,844)</u>	<u>613,161</u>
Governmental activities capital assets, net	<u>\$ 7,045,872</u>	<u>\$ (271,910)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,773,962</u>

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

Governmental Activities:	
Public safety	\$ 71,248
Public works	26,285
Unallocated	<u>200,418</u>
Total depreciation expense - governmental activities	<u>\$ 297,951</u>

## 8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the District 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 balance as of June 30, 2016:

	<u>Entity-wide Basis</u> <u>Governmental</u> <u>Activities</u>
Pension related:	
Net difference between projected and actual investment earnings	\$ 247,782
Changes in proportion and differences between contributions and proportionate share of contributions	<u>55,293</u>
Total	<u>\$ 303,075</u>

## 9. Warrants Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016 as permitted by law.

## 10. Long-Term Debt

### A. General Obligation Debt

The District issues USDA Rural Development Administration (RDA) and other loans and long-term notes to provide funds for the acquisition and construction of major capital facilities and equipment. RDA loans have been issued for general and water fund activities. Payment is not limited to a particular revenue source. General obligation debt and long term notes payable currently outstanding is as follows:

<u>Loans Payable:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of <u>June 30, 2016</u>
Millers Falls main (RDA loan)	10/15/2029	3.25%	\$ 303,608
New well construction (MCWT DWP-13-17)	7/15/2036	2.00%	<u>794,103</u>
Total Loans Payable			1,097,711
<u>Long term notes payable:</u>			
Fire truck	1/17/2017	2.30%	55,000
Fire alarm system	9/09/2017	1.20%	46,000
Water projects (refunding)	7/20/2025	3.01%	<u>450,000</u>
Total Long Term Note Payable			<u>551,000</u>
Total Long Term Debt			<u>\$ 1,648,711</u>

**B. Future Debt Service**

The annual payments to retire all long term debt outstanding as of June 30, 2016 are as follows:

	<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$	173,636	\$ 39,305	\$ 212,941
2018		117,903	36,333	154,236
2019		97,205	33,470	130,675
2020		98,541	30,839	129,380
2021		99,911	28,172	128,083
2022 - 2026		521,440	99,796	621,236
2027 - 2031		308,485	44,147	352,632
Thereafter		<u>231,590</u>	<u>14,076</u>	<u>245,666</u>
Total	\$	<u>1,648,711</u>	\$ <u>326,138</u>	\$ <u>1,974,849</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>Equals Long-Term Portion June 30, 2016</u>
<u>Governmental Activities</u>						
Loans payable	\$ 771,443	\$ 794,103	\$ (467,835)	\$ 1,097,711	\$ (49,636)	\$ 1,048,075
Notes payable	180,000	450,000	(79,000)	551,000	(124,000)	427,000
Other:						
Compensated absences	152,427	13,114	-	165,541	-	165,541
Net OPEB obligation	871,120	119,670	-	990,790	-	990,790
Net pension liability	<u>971,769</u>	<u>297,070</u>	<u>-</u>	<u>1,268,839</u>	<u>-</u>	<u>1,268,839</u>
Totals	\$ <u>2,946,759</u>	\$ <u>1,673,957</u>	\$ <u>(546,835)</u>	\$ <u>4,073,881</u>	\$ <u>(173,636)</u>	\$ <u>3,900,245</u>

**D. Current Refunding**

In July 2015, the District issued State House notes in the amount of \$450,000 at an interest rate of 3.01% to repay three USDA loans with a total outstanding balance of \$450,579 and interest rates ranging from 4.5% to 5%. The USDA loans were scheduled to mature in 2030 and 2034 were callable at any time. The proceeds from the issuance of the State House notes, along with \$579 of District funds, were used to repay the USDA loans in their entirety in July 2015. Consequently the USDA loans were removed from the District's financial statements.

As a result of the refunding, the District reduced its total debt service cash flow requirements by \$110,842, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$38,868.

There was no defeased debt outstanding at June 30, 2016.

**11. Interfund Fund Transfers**

The District 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 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	\$ -	\$ 20,000
Special revenue fund	-	5,000
Water fund	<u>5,000</u>	<u>-</u>
Total governmental funds	5,000	25,000
<u>Fiduciary Funds:</u>		
OPEB trust fund	<u>20,000</u>	<u>-</u>
Grand Total	<u>\$ 25,000</u>	<u>\$ 25,000</u>

Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes.

**12. 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 District 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:

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 the District's special revenue funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority (District Meeting). This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at District Meeting and the District's ambulance fund.

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

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

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

	General Fund	Water Fund	Special Revenue Funds	Total Governmental Funds
<b>Restricted</b>				
Special revenue funds	\$ -	\$ 296,235	\$ 2,559	\$ 298,794
Total Restricted	-	296,235	2,559	298,794
<b>Committed</b>				
Ambulance fund	-	-	42,157	42,157
Special articles	103,875	358,246	-	462,121
Total Committed	103,875	358,246	42,157	504,278
<b>Assigned</b>				
Reserve for expenditure	30,886	-	-	30,886
Total Assigned	30,886	-	-	30,886
<b>Unassigned</b>				
General fund	620,774	-	-	620,774
Stabilization fund *	100,438	-	-	100,438
Total Unassigned	721,212	-	-	721,212
Total Fund Balance	\$ 855,973	\$ 654,481	\$ 44,716	\$ 1,555,170

\* 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.

### **13. Commitments and Contingencies**

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 District expects such amounts, if any, to be immaterial.

Self-Insurance – The District 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 \$200,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At June 30, 2016, according to the Trust's unaudited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$4.4 million, the Trust was in a surplus position of approximately \$19.4 million.

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

GASB Statement 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 in the following footnote, the District provides post-employment health care and life insurance benefits for retired employees through the District's plan. The benefits, benefit levels, employee contributions and employer

contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2015, the actuarial valuation date, approximately 9 retirees, 20 spouses and 14 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

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

*C. Funding Policy*

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

*D. Annual OPEB Costs and Net OPEB Obligation*

The District'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 District's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and the change in the District's net OPEB obligation based on an actuarial valuation as of June 30, 2015.

Annual Required Contribution (ARC)	\$ 197,054
Interest of beginning net OPEB obligation	43,556
ARC adjustment	<u>(45,834)</u>
Annual OPEB cost	194,776
Contributions made	<u>(75,106)</u>
Increase in net OPEB obligation	119,670
Net OPEB obligation - beginning of year	<u>871,120</u>
Net OPEB obligation - end of year	<u><u>\$ 990,790</u></u>

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

Fiscal Year Ended	Annual OPEB Costs	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 194,776	39%	\$ 990,790
2015	\$ 170,520	47%	\$ 871,120
2014	\$ 202,413	40%	\$ 780,521
2013	\$ 204,278	36%	\$ 659,632
2012	\$ 263,909	32%	\$ 529,600
2011	\$ 253,715	29%	\$ 350,800

The District's net OPEB obligation as of June 30, 2016 is recorded as a long-term liability in the Statement of Net Position.

*E. Funded Status and Funding Progress*

The funded status of the plan as of June 30, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 2,102,696
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,102,696</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>1,031,259</u>
UAAL as a percentage of covered payroll	<u>204%</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 District 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 District 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, 2015 actuarial valuation the entry age normal cost method was used. The actuarial value of assets was not determined as the District has not advanced funded its obligation. The actuarial assumptions included average salary increases of 2.5%, a 5% investment rate of return and an annual healthcare cost trend rate of 0% in 2015, 3% - 4% for years 2-6, which increases to a 5% long-term rate for all healthcare benefits beginning in year 7. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis.

## **15. Montague Contributory Retirement System**

The District 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 District are members of the Montague Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System 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 One Avenue A, Turners Falls, MA 01376.

### **Participant Retirement Benefits**

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

5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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

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

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

#### Participant Refunds

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

#### Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979

contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

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

#### Employer Contributions

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

The District's contribution to the System for the year ended June 30, 2016 was \$194,217, 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 Related to Pensions

At June 30, 2016, the District reported a liability of \$1,268,839 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, the District's proportion was 12.32 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$195,462. In addition, the District 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	\$ 247,782
Changes in proportion and differences between contributions and proportionate share of contributions	<u>55,293</u>
Total	<u>\$ 303,075</u>

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

Year ended June 30:	
2017	\$ 75,999
2018	75,999
2019	75,999
2020	74,053
2021	<u>1,025</u>
Total	<u>\$ 303,075</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
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.25-4.75%
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first \$18,000

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



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

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

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

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

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

*E. Discount Rate*

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

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

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

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2016	\$1,863,154	\$1,268,839	\$755,586

*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.

**16. Risk Management**

The District 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 government 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.

## 17. Implementation of New GASB Standard

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

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the District 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.

TURNERS FALLS FIRE DISTRICT  
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]
06/30/15	\$ -	\$ 2,103	\$ 2,103	0.0%	\$ 1,031	204%
06/30/14	\$ -	\$ 2,499	\$ 2,499	0.0%	\$ 988	253%
06/30/10	\$ -	\$ 2,904	\$ 2,904	0.0%	\$ 854	340%

See Independent Auditors' Report.

TURNERS FALLS FIRE DISTRICT  
 SCHEDULE OF PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016  
 (Unaudited)

**Montague Contributory Retirement System**

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	12.32%	\$1,268,839	\$ 791,683	160.27%	77.00%
June 30, 2015	11.50%	\$1,184,282	\$ 843,144	140.46%	80.30%

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

See Independent Auditors' Report.

TURNERS FALLS FIRE DISTRICT  
 SCHEDULE OF PENSION CONTRIBUTIONS  
 REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016  
 (Unaudited)

**Montague Contributory Retirement System**

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<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 194,217	\$ 194,217	\$ -	\$ 791,683	24.53%
June 30, 2015	\$ 189,082	\$ 189,082	\$ -	\$ 843,144	22.43%

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

See Independent Auditors' Report.

**Additional Offices:**

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

Prudential Committee  
Turners Falls Fire District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Melanson Heath*

March 20, 2017