

HAMPSHIRE COUNCIL OF GOVERNMENTS

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 Council
Hampshire Council of Governments

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

Management's Responsibility for the Financial Statements

The Council'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 Hampshire Council of Governments, 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

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Council will continue as a going concern. As discussed in Note 25 to the financial statements, the Council has sustained losses in the current and previous years that have raised substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 25. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of

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

Melanson Heath

April 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Hampshire Council of Governments, we offer readers this narrative overview and analysis of the financial activities of the Hampshire Council of Governments 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 Hampshire Council of Governments' basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents information on all assets, liabilities, and deferred outflows/inflows 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 Council'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 assessments and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by assessments 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 administration, purchasing, building and grounds, human services, electricity aggregation, regional services, Board of Councilors, finance office, sustainability, accounting services, public safety and the long-term care facility. The business-type activities include Hampshire County Group Insurance Trust 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 two 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:

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Hampshire County Group Insurance Trust operations, which is considered to be a major fund.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Council. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Council's own programs. The account 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 \$18,845,481 (i.e., net position), a change of \$(4,246,811) in comparison to the restated prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$1,591,219, a change of \$(224,420) in comparison with the restated prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was a deficit of \$(457,149), a change of \$(602,492) in comparison with 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 Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015 Restated</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015 Restated</u>
Current and other assets	\$ 4,652,806	\$ 2,469,610	\$ 28,069,611	\$ 30,950,662	\$ 32,722,417	\$ 33,420,272
Capital assets	109,520	112,333	-	-	109,520	112,333
Deferred outflows of resources	<u>169,300</u>	<u>51,594</u>	<u>62,016</u>	<u>20,140</u>	<u>231,316</u>	<u>71,734</u>
Total assets and deferred outflows of resources	4,931,626	2,633,537	28,131,627	30,970,802	33,063,253	33,604,339
Long-term liabilities outstanding	2,106,915	2,135,817	738,357	755,891	2,845,272	2,891,708
Other liabilities	3,061,587	653,971	7,857,902	6,716,173	10,919,489	7,370,144
Deferred inflows of resources	<u>331,559</u>	<u>179,950</u>	<u>121,452</u>	<u>70,245</u>	<u>453,011</u>	<u>250,195</u>
Total liabilities and deferred inflows of resources	5,500,061	2,969,738	8,717,711	7,542,309	14,217,772	10,512,047
Net position:						
Net investment in capital assets	124,794	441,039	-	-	124,794	441,039
Restricted	113,213	172,405	-	-	113,213	172,405
Unrestricted	<u>(806,442)</u>	<u>(949,645)</u>	<u>19,413,916</u>	<u>23,428,493</u>	<u>18,607,474</u>	<u>22,478,848</u>
Total net position	<u>\$ (568,435)</u>	<u>\$ (336,201)</u>	<u>\$ 19,413,916</u>	<u>\$ 23,428,493</u>	<u>\$ 18,845,481</u>	<u>\$ 23,092,292</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2016</u>	<u>2015</u> <u>Restated</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u> <u>Restated</u>
Revenues:						
Program revenues:						
Charges for services	\$ 8,232,168	\$ 5,471,179	\$ 53,973,069	\$ 52,483,880	\$ 62,205,237	\$ 57,955,059
Operating grants and contributions	430,538	399,692	-	-	430,538	399,692
Capital grants and contributions	8,000	500,000	-	-	8,000	500,000
Interest and miscellaneous	<u>26,429</u>	<u>22,887</u>	<u>343,142</u>	<u>219,279</u>	<u>369,571</u>	<u>242,166</u>
Total revenues	8,697,135	6,393,758	54,316,211	52,703,159	63,013,346	59,096,917
Expenses:						
Administration	521,592	381,502	-	-	521,592	381,502
Purchasing	153,123	139,471	-	-	153,123	139,471
Building and grounds	367,493	206,972	-	-	367,493	206,972
Human services	371,402	449,024	-	-	371,402	449,024
Electricity aggregation	7,174,946	4,938,155	-	-	7,174,946	4,938,155
Regional services	2,848	6,844	-	-	2,848	6,844
Board of Councilors	31,692	33,187	-	-	31,692	33,187
Finance office	108,686	118,756	-	-	108,686	118,756
Sustainability	16,398	57,531	-	-	16,398	57,531
Accounting services	61,525	53,397	-	-	61,525	53,397
Public safety	3,240	9,518	-	-	3,240	9,518
Long-term care facility	116,424	273,465	-	-	116,424	273,465
Hampshire County Group Insurance Trust	<u>-</u>	<u>-</u>	<u>58,330,788</u>	<u>55,445,289</u>	<u>58,330,788</u>	<u>55,445,289</u>
Total expenses	<u>8,929,369</u>	<u>6,667,822</u>	<u>58,330,788</u>	<u>55,445,289</u>	<u>67,260,157</u>	<u>62,113,111</u>
Change in net position	(232,234)	(274,064)	(4,014,577)	(2,742,130)	(4,246,811)	(3,016,194)
Net position - beginning of year, restated	<u>(336,201)</u>	<u>(62,137)</u>	<u>23,428,493</u>	<u>26,170,623</u>	<u>23,092,292</u>	<u>26,108,486</u>
Net position - end of year	<u>\$ (568,435)</u>	<u>\$ (336,201)</u>	<u>\$ 19,413,916</u>	<u>\$ 23,428,493</u>	<u>\$ 18,845,481</u>	<u>\$ 23,092,292</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Resources of the governmental activities are not used to finance costs related to business-type activities; therefore, the net position of the governmental activities should be viewed independently from business-type activities.

At the close of the most recent fiscal year, total net position was \$18,845,481, a change of \$(4,246,811) from the restated prior year.

A portion of net position, \$124,794 reflects our investment in capital assets (e.g., buildings, machinery and equipment). These capital assets are used to provide services to members; consequently, these assets are not available for future spending.

An additional portion of net position, \$113,213 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 \$(806,442) (governmental) and a surplus of \$19,413,916 (business-type).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(232,234). Key elements of this change are as follows:

General Fund Operating Results:	
Revenues under budget	\$ (7,187)
Budgetary appropriations unspent by departments	67,047
Other use - budgeted deficit	(672,681)
Major fund - Electricity fund revenues in excess of expenditures	702,559
Non-major fund expenditures in excess of revenues	(314,158)
Capital outlay additions	10,877
Depreciation expense (not budgeted for)	(13,690)
Period change in workers compensation liability	60,126
Period change in accrued compensated absences liability	(2,123)
Period change in net OPEB obligation liability	(21,171)
Period change in net pension liability, net of deferrals	(41,833)
Total	<u>\$ (232,234)</u>

Business-Type Activities. Business-type activities for the year ending June 30, 2016 resulted in a change in net position of \$(4,014,577) for the Hampshire County Group Insurance Trust. This decrease was primarily the result of claims paid in excess of premium revenue.

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 \$1,591,219 a change of \$(224,420) in comparison with the restated prior year. Key elements of this change are as follows:

General Fund Operating Results:	
Revenues under budget	\$ (7,187)
Budgetary appropriations unspent by departments	67,047
Other use - budgeted deficit	(672,681)
Major fund - Electricity fund revenues in excess of expenditures	702,559
Non-major fund expenditures in excess of revenues	<u>(314,158)</u>
Total	<u>\$ (224,420)</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 a deficit of \$(457,149), while total fund balance was \$868,008. 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	\$ (457,149)	\$ 145,343	\$ (602,492)	-41.8%
Total fund balance	\$ 868,008	\$ 1,480,829	\$ (612,821)	79.3%

The fund balance of the general fund changed by \$(612,821) during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:	
Revenues under budget	\$ (7,187)
Budgetary appropriations unspent by departments	67,047
Other use - budgeted deficit	<u>(672,681)</u>
Total	<u>\$ (612,821)</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 Hampshire County Group Insurance Trust at the end of the year amounted to \$19,413,916, a change of \$(4,014,577) in comparison with 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

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

F. CAPITAL ASSET ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$109,520 (net of accumulated depreciation), a change of \$(2,813) from the prior year due to the following reasons:

- \$10,877 of telephone system upgrades.
- \$(13,690) of depreciation expense.

This investment in capital assets includes leasehold improvements, equipment and furnishings.

Additional information on capital assets 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 Hampshire Council of Government'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:

Mr. Roland Chaffee, Finance Director
Hampshire Council of Governments
County Courthouse, 99 Main Street
Northampton, MA 01060

HAMPSHIRE COUNCIL OF GOVERNMENTS

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	\$ 1,205,153	\$ 6,583,241	\$ 7,788,394
Restricted cash	45,776	-	45,776
Investments	194,943	17,862,071	18,057,014
Receivables:			
Departmental and other, net of allowance	1,212,282	3,624,299	4,836,581
Intergovernmental	1,807,990	-	1,807,990
Due from other funds	3,204	-	3,204
Noncurrent:			
Restricted investments	129,182	-	129,182
Health insurance deposit	54,276	-	54,276
Capital assets, net of accumulated depreciation	109,520	-	109,520
DEFERRED OUTFLOWS OF RESOURCES	<u>169,300</u>	<u>62,016</u>	<u>231,316</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	4,931,626	28,131,627	33,063,253
LIABILITIES			
Current:			
Warrants payable	57,185	-	57,185
Accounts payable	2,658,626	-	2,658,626
Line of credit	300,000	-	300,000
Deposits held in escrow	45,776	3,463,882	3,509,658
Accrued claims payable (IBNR)	-	4,394,020	4,394,020
Current portion of long-term liabilities:			
Workers compensation liability	55,000	-	55,000
Noncurrent:			
Workers compensation liability, net of current portion	99,680	-	99,680
Accrued compensated absences	41,435	20,884	62,319
Net OPEB obligation	276,415	118,786	395,201
Net pension liability	1,634,385	598,687	2,233,072
DEFERRED INFLOWS OF RESOURCES	<u>331,559</u>	<u>121,452</u>	<u>453,011</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	5,500,061	8,717,711	14,217,772
NET POSITION			
Net investment in capital assets	124,794	-	124,794
Restricted for:			
State and federal grants	6,981	-	6,981
Permanent funds (expendable)	106,232	-	106,232
Unrestricted	<u>(806,442)</u>	<u>19,413,916</u>	<u>18,607,474</u>
TOTAL NET POSITION	<u>\$ (568,435)</u>	<u>\$ 19,413,916</u>	<u>\$ 18,845,481</u>

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

HAMPSHIRE COUNCIL OF GOVERNMENTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Electricity Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Current				
Cash and short-term investments	\$ 1,083,648	\$ -	\$ 121,505	\$ 1,205,153
Restricted cash	3,977	41,799	-	45,776
Investments	-	194,943	-	194,943
Receivables:				
Departmental and other, net of allowance	-	1,212,282	-	1,212,282
Intergovernmental	-	1,795,360	12,630	1,807,990
Due from other funds	-	214,390	-	214,390
Noncurrent				
Restricted investments	-	129,182	-	129,182
Health insurance deposit	54,276	-	-	54,276
TOTAL ASSETS	\$ 1,141,901	\$ 3,587,956	\$ 134,135	\$ 4,863,992
LIABILITIES				
Warrants payable	\$ 57,185	\$ -	\$ -	\$ 57,185
Accounts payable	7,194	2,651,432	-	2,658,626
Due to other funds	205,537	-	5,649	211,186
Line of credit	-	300,000	-	300,000
Deposits held in escrow	3,977	41,799	-	45,776
TOTAL LIABILITIES	273,893	2,993,231	5,649	3,272,773
FUND BALANCES				
Restricted	-	594,725	128,486	723,211
Assigned	1,325,157	-	-	1,325,157
Unassigned	(457,149)	-	-	(457,149)
TOTAL FUND BALANCES	868,008	594,725	128,486	1,591,219
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,141,901	\$ 3,587,956	\$ 134,135	\$ 4,863,992

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

HAMPSHIRE COUNCIL OF GOVERNMENTS
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	\$ 1,591,219
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	109,520
• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	(162,259)
• Long-term liabilities, including workers compensation liability, 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>(2,106,915)</u>
Net Position of Governmental Activities	<u>\$ (568,435)</u>

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

HAMPSHIRE COUNCIL OF GOVERNMENTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Electricity Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Assessments	\$ 26,970	\$ -	\$ -	\$ 26,970
Charges for services	353,363	7,851,835	-	8,205,198
Intergovernmental	78,247	-	360,291	438,538
Investment income	2,221	1,029	-	3,250
Miscellaneous	21,005	-	2,174	23,179
	<u>481,806</u>	<u>7,852,864</u>	<u>362,465</u>	<u>8,697,135</u>
Total Revenues				
Expenditures:				
Adminstration	497,716	-	-	497,716
Purchasing	145,582	-	-	145,582
Building and grounds	46,060	-	321,433	367,493
Human services	-	-	355,190	355,190
Electricity aggregation	-	7,150,305	-	7,150,305
Regional services	7,642	-	-	7,642
Board of Councilors	32,896	-	-	32,896
Finance office	99,389	-	-	99,389
Sustainability	13,931	-	-	13,931
Accounting services	61,525	-	-	61,525
Public safety	3,240	-	-	3,240
Long-term care facility	186,646	-	-	186,646
	<u>1,094,627</u>	<u>7,150,305</u>	<u>676,623</u>	<u>8,921,555</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	(612,821)	702,559	(314,158)	(224,420)
Fund Equity, at Beginning of Year, as restated	<u>1,480,829</u>	<u>(107,834)</u>	<u>442,644</u>	<u>1,815,639</u>
Fund Equity, at End of Year	<u>\$ 868,008</u>	<u>\$ 594,725</u>	<u>\$ 128,486</u>	<u>\$ 1,591,219</u>

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

HAMPSHIRE COUNCIL OF GOVERNMENTS

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 Change in Fund Balances - Total Governmental Funds	\$ (224,420)
<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:	
Capital outlay purchases	10,877
Depreciation	(13,690)
<ul style="list-style-type: none">Some expenses reported in the statement of activities, such as workers compensation liability, accrued compensated absences, net OPEB obligation, and net pension liability do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	
	<u>(5,001)</u>
Change in Net Position of Governmental Activities	<u>\$ (232,234)</u>

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

HAMPSHIRE COUNCIL OF GOVERNMENTS

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

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Assessments	\$ 26,484	\$ 26,484	\$ 26,970	\$ 486
Charges for services	401,809	401,809	342,363	(59,446)
Hampshire Solar	40,000	40,000	77,022	37,022
Investment income	1,000	1,000	2,221	1,221
Miscellaneous	8,700	8,700	22,230	13,530
Total Revenues and Other Sources	477,993	477,993	470,806	(7,187)
Expenditures and Other Uses:				
Administration	491,877	491,877	497,716	(5,839)
Purchasing	133,769	133,769	145,582	(11,813)
Building and grounds	35,643	35,643	35,060	583
Regional services	11,000	11,000	7,642	3,358
Board of Councilors	34,599	34,599	32,896	1,703
Finance office	134,313	134,313	99,389	34,924
Sustainability	87,978	87,978	13,931	74,047
Accounting services	30,146	30,146	61,525	(31,379)
Public safety	10,600	10,600	3,240	7,360
Long-term care facility	180,749	180,749	186,646	(5,897)
Total Expenditures and Other Uses	1,150,674	1,150,674	1,083,627	67,047
Electricity revenues budgeted in excess of expenses (General Fund subsidy)	(672,681)	(672,681)	-	(672,681)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (612,821)	\$ (612,821)

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

HAMPSHIRE COUNCIL OF GOVERNMENTS
 PROPRIETARY FUND
 STATEMENT OF NET POSITION
 JUNE 30, 2016

	Hampshire County Group Insurance <u>Trust</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 6,583,241
Investments	17,862,071
Member accounts receivable	3,624,299
DEFERRED OUTFLOWS OF RESOURCES	<u>62,016</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	28,131,627
LIABILITIES	
Current:	
Member deposits	3,463,882
Accrued claims payable (IBNR)	<u>4,394,020</u>
Total current liabilities	7,857,902
Noncurrent:	
Accrued compensated absences	20,884
Net OPEB obligation	118,786
Net pension liability	<u>598,687</u>
Total noncurrent liabilities	738,357
DEFERRED INFLOWS OF RESOURCES	<u>121,452</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	8,717,711
NET POSITION	
Unrestricted	<u>19,413,916</u>
TOTAL NET POSITION	<u><u>\$ 19,413,916</u></u>

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

HAMPSHIRE COUNCIL OF GOVERNMENTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	Hampshire County Group Insurance <u>Trust</u>
Operating Revenues:	
Premiums	\$ <u>53,973,069</u>
Total Operating Revenues	53,973,069
Operating Expenses:	
Insurance claims	54,597,517
Administration	<u>3,733,271</u>
Total Operating Expenses	<u>58,330,788</u>
Operating Income (Loss)	(4,357,719)
Nonoperating Revenues:	
Investment income	<u>343,142</u>
Total Nonoperating Revenues	<u>343,142</u>
Change in Net Position	(4,014,577)
Net Position at Beginning of Year	<u>23,428,493</u>
Net Position at End of Year	\$ <u><u>19,413,916</u></u>

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

HAMPSHIRE COUNCIL OF GOVERNMENTS
 PROPRIETARY FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2016

	Hampshire County Group Insurance <u>Trust</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from members and users	\$ 53,194,501
Payments to vendors and employees	<u>(57,375,539)</u>
Net Cash (Used For) Operating Activities	(4,181,038)
<u>Cash Flows From Investing Activities:</u>	
(Purchase) and sale of investments, net	(3,135,199)
Investment income	<u>343,142</u>
Net Cash (Used For) Investing Activities	<u>(2,792,057)</u>
Net Change in Cash and Short-Term Investments	(6,973,095)
Cash and Short Term Investments, Beginning of Year	<u>13,556,336</u>
Cash and Short Term Investments, End of Year	<u><u>\$ 6,583,241</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided By/(Used For) Operating Activities:</u>	
Operating income (loss)	\$ (4,357,719)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Member accounts receivable	(956,924)
Warrants payable	(8,888)
Accrued payroll	(10,489)
Member deposits	178,277
Accrued claims payable (IBNR)	982,908
Accrued compensated absences	(406)
Net OPEB obligation	19,082
Net pension liability, net of deferrals	<u>(26,879)</u>
Net Cash (Used For) Operating Activities	<u><u>\$ (4,181,038)</u></u>

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

HAMPSHIRE COUNCIL OF GOVERNMENTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>61,353</u>
Total Assets	61,353
<u>LIABILITIES AND NET POSITION</u>	
Due to other funds	3,204
Other liabilities	<u>58,149</u>
Total Liabilities	\$ <u><u>61,353</u></u>

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

Hampshire Council of Governments

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Hampshire Council of Governments (the Council) 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 Hampshire Council of Governments is authorized by and operates under the provisions of Chapter 34B, Section 20(b) of the Massachusetts General Laws, as amended. The Hampshire County Group Insurance Trust (HCGIT) operates under the provisions of Chapter 32B of the Massachusetts General Laws. All assets of the HCGIT are restricted for HCGIT use only and cannot be used to fund Council operations. See Group Insurance footnote 21 for more information on the relationship between the Council and HCGIT. The Council's administrative office is located at the County Courthouse, 99 Main Street, Northampton, MA. As of June 30, 2016, the Council was composed of 15 members from the cities and towns within Hampshire County.

Generally accepted accounting principles require these financial statements to present the primary 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*, which normally are supported by charges for services, member assessments 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. Other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds 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. Assessments 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 and (2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The Council 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 *electricity fund* accounts for all activity related to the Council's electricity operations.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund are charges to members for insurance premiums. Operating expenses for proprietary funds include the cost of health insurance claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Council reports the following major proprietary fund:

- The *Hampshire County Group Insurance Trust* is used to account for the resources and outflows of the 68-unit member group insurance trust administered by the Hampshire Council of Governments.

The *agency funds* account for fiduciary assets held by the Council 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 are included under investment income.

For purpose of the statement of cash flows, the proprietary fund considers 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 are carried at market value.

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. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Leasehold improvements	40
Office equipment	5
Computer equipment	3

H. Compensated Absences

It is the Council’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary

fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. 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 Council 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 Council’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., the Board of Councilors).
- 4) Assigned funds are used for specific purposes as established by the Council.
- 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 Council 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 Council or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

J. 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

The Executive Director presents an operating budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the Council, 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 Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Council is empowered to transfer funds from the reserve funds 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 when appropriations are voted.

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</u>	<u>Expenditures</u>
Revenues/expenditures (GAAP basis)	\$ 481,806	\$ 1,094,627
Remove unbudgeted source/use	<u>(11,000)</u>	<u>(11,000)</u>
Budgetary basis	<u>\$ 470,806</u>	<u>\$ 1,083,627</u>

3. **Cash and Short-Term Investments**

Custodial Credit Risk - Deposits. Custodial credit risk, as defined under GASB Statement No. 40, is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. As of June 30, 2016, none of the Council's bank balance of \$1,418,768 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of June 30, 2016, none of the Council's Group Insurance Trust bank balance of \$6,605,621 was exposed to custodial credit risk as uninsured and/or uncollateralized.

Massachusetts General Law 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 Council's deposits are within this limitation. At June 30, 2016, the Council did not have a deposit policy addressing custodial credit risk.

4. **Restricted Cash and Investments and Deposits Held in Escrow**

The Council maintains separate bank accounts for funds held on behalf of the Connecticut Municipal Electric Energy Cooperative (CMEEC) and funds required to be on deposit with ISO New England, through which the Council purchases electricity. Balances at June 30, 2016 consist of the following:

	Restricted <u>Cash</u>	Restricted <u>Investments</u>	Escrow <u>Deposits</u>
Funds on deposit for ISO New England	\$ -	\$ 129,182	\$ -
Funds held on behalf of CMEEC	41,799	-	41,799
Performance bonds/other	<u>3,977</u>	<u>-</u>	<u>3,977</u>
Total	<u>\$ 45,776</u>	<u>\$ 129,182</u>	<u>\$ 45,776</u>

Electricity providers deposit funds into the Council's bank accounts for electricity purchases. CMEEC, the electricity aggregation supplier then transfers the funds to their bank account and remits the Council's share to them monthly. The amount of funds required to be on deposit for ISO purposes is based on an ISO formula (which will fluctuate with the volume of electricity purchased) and is required in order to continue purchasing electricity. These funds are invested in mutual funds.

In addition, the Group Insurance Trust collects an initial deposit from each member when they join the Trust. These deposits would be used to fund residual claims in the event the member withdraws from the Trust and are reported as member deposits on the statement of net position.

5. 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 Council's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Group Insurance Trust's investment policy requires they invest in a prudent manner, achieving growth and income through quality investments with minimal risk; all bonds should have a rating of BBB- or better.

The Council's investments at June 30, 2016 are in mutual funds, which are not subject to credit risk.

Presented below is the actual rating as of year-end for each investment of the Group Insurance Trust as of June 30, 2016:

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year End				
			AAA	AA+/AA-	A+/A/A-	BBB+/BBB-	BB+
Asset-backed securities	\$ 1,671,349	\$ -	\$ 1,671,349	\$ -	\$ -	\$ -	\$ -
Certificates of deposit	9,453,879	9,453,879	-	-	-	-	-
Corporate bonds	2,391,465	-	268,276	229,392	912,712	931,866	49,219
Equity securities	1,136,941	1,136,941	-	-	-	-	-
Federal bonds	1,083,766	-	1,083,766	-	-	-	-
Mutual funds	2,124,671	2,124,671	-	-	-	-	-
Total investments	<u>\$ 17,862,071</u>	<u>\$ 12,715,491</u>	<u>\$ 3,023,391</u>	<u>\$ 229,392</u>	<u>\$ 912,712</u>	<u>\$ 931,866</u>	<u>\$ 49,219</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Council does not have policies for custodial credit risk. The Group Insurance Trust's investment policy to limit custodial credit risk is to keep a diversified portfolio, with specified ranges of asset allocation between cash equivalents (0% - 25%), fixed income (25% - 75%) and stocks (0% - 25%).

All of the Council's investments and the Group Insurance Trust's investments, other than certificates of deposit, are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by their brokerage firm, which is also the Counterparty to these securities. The Council and Group Insurance Trust manage this custodial credit risk with SIPC and/or excess SIPC.

C. Concentration of Credit Risk

The Council places no limit on the amount they may invest in any one issuer. The Council does not have investments in any one issuer greater than 5% of total investments.

The Group Insurance Trust limits investment in any one company to no more than 15% of the total stock portfolio and no one industry can represent more than 30% of total equity holdings. Investments in any one issuer (other than Federal bonds and mutual funds) that represent 5% or more of total investments are as follows:

Easthampton Savings Bank	\$6,238,271
Florence Savings Bank	3,215,608

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 Council 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. The Group Insurance Trust's policy limits interest rate risk by requiring fixed income investments (bonds) to have an average maturity of 7 years or less. The Group Insurance Trust currently holds investments with maturities greater than 7 years as they were originally purchased prior to the adoption of the investment policy.

The Council's investment in mutual funds is not subject to interest rate risk.

Information about the sensitivity of the fair values of the Group Insurance Trust'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</u>	<u>1-5</u>	<u>6-10</u>
Asset-backed securities	\$ 1,671,349	\$ 298,049	\$ -	\$ 282,437	\$ 1,090,863
Certificates of deposit	9,453,879	-	9,453,879	-	-
Corporate bonds	2,391,465	1,516,006	-	472,732	402,727
Equity securities	1,136,941	1,136,941	-	-	-
Federal bonds	1,083,766	149,565	-	417,150	517,051
Mutual funds	<u>2,124,671</u>	<u>2,124,671</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 17,862,071</u>	<u>\$ 5,225,232</u>	<u>\$ 9,453,879</u>	<u>\$ 1,172,319</u>	<u>\$ 2,010,641</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 Council and Group Insurance Trust do not have policies for foreign currency risk.

F. Fair Value

The Council and Group Insurance Trust categorizes their 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.

All of the Council's and Group Insurance Trust's investments are considered Level 1 or are not subject to fair value measurement at June 30, 2016.

6. Intergovernmental Receivables

This balance represents reimbursements from one of their electricity suppliers (Galt) for electricity hedges purchased by the Council on behalf of Galt.

7. Interfund Fund 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	\$ -	\$ 205,537
Electricity fund	214,390	-
Special revenue fund	-	5,649
Agency fund	-	3,204
	<hr/>	<hr/>
Total	<u>\$ 214,390</u>	<u>\$ 214,390</u>

8. Health Insurance Deposit

In July 2009 Hampshire Council of Government's component unit, Hampshire Care, was sold to Masonic Health Systems. As part of the sale agreement, the Council assumed responsibility for approximately forty Hampshire Care retirees. As a result, the deposit made by Hampshire Care to join the Hampshire County Group Insurance Trust (HCGIT) was transferred to the Council. This deposit reserve affords the Council voting rights in the HCGIT and would only be used to fund the residual claims in the event the Council withdraws from the Trust.

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:				
Leasehold improvements	\$ 109,782	\$ -	\$ -	\$ 109,782
Equipment - computer and communications	230,154	10,877	-	241,031
Equipment - other	16,855	-	-	16,855
Furnishings	<u>34,719</u>	<u>-</u>	<u>-</u>	<u>34,719</u>
Total capital assets, being depreciated	391,510	10,877	-	402,387
Less accumulated depreciation for:				
Leasehold improvements	(41,553)	(2,745)	-	(44,298)
Equipment - computer and communications	(186,050)	(10,945)	-	(196,995)
Equipment - other	(16,855)	-	-	(16,855)
Furnishings	<u>(34,719)</u>	<u>-</u>	<u>-</u>	<u>(34,719)</u>
Total accumulated depreciation	<u>(279,177)</u>	<u>(13,690)</u>	<u>-</u>	<u>(292,867)</u>
Governmental activities capital assets, net	<u>\$ 112,333</u>	<u>\$ (2,813)</u>	<u>\$ -</u>	<u>\$ 109,520</u>

All of the current year's depreciation of \$13,690 was charged to administration expense.

10. Deferred Outflows of Resources

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

The balance of \$231,316 in deferred outflows of resources for the year ending June 30, 2016 represents the net difference between projected and actual pension plan investment earnings.

11. Warrants and Accounts Payable

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

12. Line of Credit

The Council has a line of credit for up to \$600,000 with Customized Energy Solutions, Ltd (CES) to fund short-term working capital needs related to the Electricity program. At June 30, 2016, \$300,000 was drawn on the line of credit. The line of credit is payable upon demand and requires monthly

interest-only payments, calculated on the outstanding balance from the previous month. Interest is charged at 12%. The line of credit agreement expired on December 31, 2015 and was never extended; however, the Council is still working with CES on the anticipated repayment of these funds.

13. Long-Term Obligations

The following summarizes the changes in long-term liabilities for fiscal year 2016:

	Beginning Balance June 30, 2015	Additions	Reductions	Total Balance June 30, 2016	Less Current Portion	Long-Term Portion June 30, 2016
<u>Governmental Activities</u>						
Workers compensation	\$ 214,806	\$ -	\$ (60,126)	\$ 154,680	\$ (55,000)	\$ 99,680
Accrued compensated absences	39,312	2,123	-	41,435	-	41,435
Net OPEB obligation	255,244	21,171	-	276,415	-	276,415
Net pension liability	<u>1,626,455</u>	<u>7,930</u>	<u>-</u>	<u>1,634,385</u>	<u>-</u>	<u>1,634,385</u>
Totals	<u>\$ 2,135,817</u>	<u>\$ 31,224</u>	<u>\$ (60,126)</u>	<u>\$ 2,106,915</u>	<u>\$ (55,000)</u>	<u>\$ 2,051,915</u>
<u>Business-Type Activities</u>						
Accrued compensated absences	\$ 21,290	\$ -	\$ (406)	\$ 20,884	\$ -	\$ 20,884
Net OPEB obligation	99,704	19,082	-	118,786	-	118,786
Net pension liability	<u>634,897</u>	<u>-</u>	<u>(36,210)</u>	<u>598,687</u>	<u>-</u>	<u>598,687</u>
Totals	<u>\$ 755,891</u>	<u>\$ 19,082</u>	<u>\$ (36,616)</u>	<u>\$ 738,357</u>	<u>\$ -</u>	<u>\$ 738,357</u>

14. Deferred Inflows of Resources

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

The balance of \$453,011 in deferred inflows of resources for the year ending June 30, 2016 represents the changes in pension proportion and differences between contributions and proportionate share of contributions.

15. 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.

16. 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 Council 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 various special revenue funds, capital project funds funded by grants, and the income portion of permanent trust funds.

Assigned - Represents amounts that are constrained by the Council's intent to use these resources for a specific purpose. This fund balance classification includes certain funds designated by the Council for specific purposes, as detailed in footnote 17.

Unassigned - Represents the deficit fund balance in the general fund.

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

	General Fund	Electricity Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted				
Special revenue funds	\$ -	\$ 594,725	\$ 6,981	\$ 601,706
Capital project fund	-	-	15,273	15,273
Expendable permanent funds	-	-	106,232	106,232
Total Restricted	-	594,725	128,486	723,211
Assigned				
Designated fund balance	1,325,157	-	-	1,325,157
Total Assigned	1,325,157	-	-	1,325,157
Unassigned				
General fund	(457,149)	-	-	(457,149)
Total Unassigned	(457,149)	-	-	(457,149)
Total Fund Balance	\$ 868,008	\$ 594,725	\$ 128,486	\$ 1,591,219

17. Assigned Fund Balance

The Council has established “designations” of fund equity which are not legally required segregations, but have been established to indicate tentative plans for future financial utilization.

Monies set aside by the Council are for general reserve, capital and employee benefit-related purposes. Assigned general fund balance categories and balances at June 30, 2016 are as follows:

Employee benefits	\$ 83,107
Finance Committee reserve	174,781
Post-employment benefits	414,751
Renovations fund	21,747
Solar project reserve	251,270
Technology fund	75,793
Workers compensation	<u>303,708</u>
Total	<u>\$ 1,325,157</u>

18. 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 Council expects such amounts, if any, to be immaterial.

Electricity Program - In fiscal year 2007, the Council implemented a program to purchase and sell electricity to customers, which include both municipalities and commercial businesses. As part of this process, the Council obtained a supplier’s license from the Department of Telecommunications and Energy (DTE) and became a member in the New England Power Pool (NEPool), an electricity industry association. Membership in NEPool is required in order to purchase electricity on the wholesale market.

Under the electricity program, customers are billed for actual usage at the Council’s adopted rate. Starting in fiscal year 2015 the Council implemented an aggregation program to cities and towns. Through this aggregation contract all of the customers in the city/town are supplied electricity by the Council. The rates are set and periodically modified by the Council’s Electricity Committee.

Workers Compensation - The Council sold its component unit, Hampshire Care, to Masonic Health Systems in July 2009. As part of the sale agreement, the Council became responsible for the payment of three ongoing workers compensation claims. Hampshire Care was self-insured against claims for workers compensation but did not have excess loss insurance on an aggregate claims basis. Consequently, salary and medical benefits due these three individuals must be paid by the Council for as long as the claims remain active. At June 30, 2016, management estimates these claims could result in a future liability of \$154,680 over the life of the claims. This is recorded as an accrued liability in the accompanying statement of net position.

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the Council is involved. The Council'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.

19. 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 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 Council provides post-employment health care and life insurance benefits for retired employees through the Council'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, 2016, the valuation date, approximately 67 retirees and 18 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the Council. The Council contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Council's fiscal 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount 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 liability over a period of thirty years. The following table shows the components of the Council's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and the change in the Council's net OPEB obligation based on a valuation as of June 30, 2016.

	Governmental Activities	Hampshire County Group Insurance Trust	Total
Annual Required Contribution (ARC)	\$ 163,838	\$ 23,220	\$ 187,058
Interest on net OPEB obligation	7,657	2,991	10,648
Adjustment to ARC	<u>(9,396)</u>	<u>(3,670)</u>	<u>(13,066)</u>
Annual OPEB cost	162,099	22,541	184,640
Contributions made	<u>(140,928)</u>	<u>(3,459)</u>	<u>(144,387)</u>
Increase (decrease) in net OPEB obligation	21,171	19,082	40,253
Net OPEB obligation - beginning of year	<u>255,244</u>	<u>99,704</u>	<u>354,948</u>
Net OPEB obligation - end of year	<u>\$ 276,415</u>	<u>\$ 118,786</u>	<u>\$ 395,201</u>

The Council'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	\$ 184,640	78.2%	\$ 395,201
2015	\$ 389,419	36.9%	\$ 354,948
2014	\$ 115,683	118.6%	\$ 112,435
2013	\$ 151,025	87.7%	\$ 133,913
2012	\$ 149,910	79.2%	\$ 115,350

E. Funded Status and Funding Progress

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

Actuarial accrued liability (AAL)	\$ 3,303,665
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,303,665</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 1,149,834</u>
UAAL as a percentage of covered payroll	<u>287%</u>

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 value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The Council has set aside \$414,751 as an assigned fund balance in the general fund for the purpose of funding the liability.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Council 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 Council and plan members to that point. The 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 valuation the unit credit cost method was used. The actuarial value of assets was not determined as the Council has not advance funded its obligation. The assumptions included a 3% investment rate of return and an annual healthcare cost trend rate of 5%. The amortization costs for the initial UAAL is a level percentage of payroll, on a

closed basis. This has been calculated assuming a discount rate of 3% and average salary increases of 2.5%.

20. Hampshire County Retirement System

The Council 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 Council are members of the Hampshire County 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 Council employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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

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

Participant Refunds

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

Participants Contributions

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

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

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

Employer Contributions

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

The Council's contribution to the System for the year ended June 30, 2016 was \$200,292, 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 Council reported a liability of approximately \$2.2 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 Council's proportion of the net pension liability was based on a projection of the Council'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 Council's proportion was 1.08 percent, which was a decrease of 0.13 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Council recognized pension expense of \$215,244. In addition, the Council reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual pension investment earnings	\$ 231,316	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>453,011</u>
	<u>\$ 231,316</u>	<u>\$ 453,011</u>

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

Year ended June 30:		
2017	\$	13,307
2018		13,307
2019		13,307
2020		(119,974)
2021		(21,140)
Thereafter		<u>(120,502)</u>
Total	\$	<u>(221,695)</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 two years 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 Council's proportionate share of the net pension liability calculated using the discount rate of 7.875 percent, as well as what the Council'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	\$2,779	\$2,233	\$1,801

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.

21. Group Insurance

The Hampshire County Group Insurance Trust (HCGIT) administers a self-insurance program to offer group health insurance and other employee benefits on behalf of their participating members. Per the trust agreement, the Board of Hampshire Council of Governments Councilors acts as the Trustees of the HCGIT. As Trustees, they appoint the Insurance Director and other administrative staff, and receive advice from the Insurance Advisory Committee, a subcommittee of the Councilors. Per Massachusetts General Law Chapter 32B under which the HCGIT was established, all assets of the HCGIT are considered restricted and therefore cannot be used, borrowed, or leveraged by the Council. The trust agreement also states that no part of the HCGIT funds shall be distributed for other than HCGIT obligations. In the event that the Hampshire Council of Governments votes to dissolve, the Insurance Advisory Committee shall immediately become vested as Trustees and the business of the HCGIT shall be conducted without interruption. Conversely, in the event that the HCGIT is terminated by the Trustees, any residual funds shall be divided among their participating members.

The HCGIT contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the HCGIT is liable for up to \$250,000 with a lifetime maximum of \$2 million per covered person. A liability for unpaid claims at

June 30, 2016 of \$4,394,020 has been recorded in the proprietary fund. This represents the HCGIT's estimate of claims incurred but unpaid at year end, based on historical costs and claims paid subsequent to year end.

The HCGIT's insurance plans are retrospectively rated policies. In other words, the HCGIT contributes a level monthly premium which is adjusted (settled) quarterly for actual claims paid.

Changes in the aggregate liability for claims for the year ended June 30, 2016 are as follows:

Claims liability, July 1, 2015	\$ 3,411,112
Claims incurred/recognized	54,597,517
Claims paid in period	<u>(53,614,609)</u>
Claims liability, June 30, 2016	<u>\$ 4,394,020</u>

This liability is comprised of:

Amount due for settlement of the quarter ending June 30, 2016	\$ 12,426
Estimated incurred but not reported claims liability	<u>4,381,594</u>
	<u>\$ 4,394,020</u>

22. Risk Management

The Council 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.

23. Beginning Net Position and Fund Balance Restatement

The beginning (July 1, 2015) the net position of governmental activities and the nonmajor governmental fund balances of the Council have been restated as follows:

	Governmental <u>Activities</u>	Nonmajor Governmental <u>Funds</u>
As previously stated, 06/30/15	\$ (277,734)	\$ 501,111
To reclassify certain funds as agency funds	<u>(58,467)</u>	<u>(58,467)</u>
As restated, 06/30/15	<u>\$ (336,201)</u>	<u>\$ 442,644</u>

24. Implementation of New GASB Standard

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 Council 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.

25. Deficit Fund Balance

The Council has sustained losses in the General Fund in the current and previous years as a result of program expenses exceeding revenues, contributing to the deficit position in the unassigned fund balance of \$(457,149) at June 30, 2016.

The Council anticipates continuing to utilize surplus generated from Electricity Fund operations to subsidize the annual shortfall in the General Fund. In addition, the Council is currently pursuing new revenue sources, including possible Legislative changes that could result in additional revenue.

HAMPSHIRE COUNCIL OF GOVERNMENTS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF OPEB FUNDING PROGRESS

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	\$ -	\$ 3,304	\$ 3,304	0.0%	\$ 1,150	287.3%
06/30/15	\$ -	\$ 3,460	\$ 3,460	0.0%	not available	N/A
06/30/14	\$ -	\$ 1,817	\$ 1,817	0.0%	not available	N/A
06/30/13	\$ -	\$ 2,469	\$ 2,469	0.0%	not available	N/A
06/30/12	\$ -	\$ 2,450	\$ 2,450	0.0%	not available	N/A
06/30/11	\$ -	\$ 2,523	\$ 2,523	0.0%	not available	N/A
06/30/10	\$ -	\$ 2,483	\$ 2,483	0.0%	not available	N/A

See Independent Auditors' Report.

HAMPSHIRE COUNCIL OF GOVERNMENTS
 SCHEDULE OF PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

(Unaudited)

(Amounts expressed in thousands)

Hampshire County 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	1.08%	\$ 2,233	\$ 960	232.60%	55.29%
June 30, 2015	1.21%	\$ 2,261	\$ 770	293.64%	58.07%

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

See Independent Auditors' Report.

HAMPSHIRE COUNCIL OF GOVERNMENTS
 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	\$ 200	\$ 200	\$ -	\$ 960	20.83%
June 30, 2015	\$ 211	\$ 211	\$ -	\$ 770	27.40%

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

See Independent Auditors' Report.