

**TOWN OF CHATHAM, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDING JUNE 30, 2010**

TOWN OF CHATHAM, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Selectmen
Town of Chatham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Chatham, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Eldredge Public Library, Inc., which represent 100 percent of the assets, net assets and revenues of the discretely presented component unit. The financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Eldredge Public Library, Inc., is based on the report of the other auditors. The financial statements of Eldredge Public Library, Inc. were not audited in accordance with *Government Auditing Standards*.

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 our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chatham, Massachusetts as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2011 on our consideration of Town of Chatham, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule and the schedule of funding progress on the accompanying pages 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 sufficient evidence to express an opinion or provide any assurance.

Malloy, Lynch, Bienvenue, LLP

March 18, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF CHATHAM, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2010

As management of the Town of Chatham, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in the Management Discussion and Analysis and the following accompanying pages.

Overview of the Financial Statements

The Town's financial statements present two types of statements – government wide statements and fund financial statements, each with a different view of the Town's finances. The government wide financial statements provide both long and short-term information about the Town as a whole. The fund financial statements focus on the individual parts of the Town government, reporting the Town's operations in more detail than the government wide statements. Both presentations (government wide and fund) allow the reader to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-Wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business.

Statement of Net Assets: The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The reader should consider other non-financial factors, such as the condition of the Town's infrastructure and changes to the property tax base, in order to assess the overall health of the Town.

Statement of Activities: The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods (i.e. uncollected taxes, or earned but unused sick and vacation time). This statement also presents a comparison between direct expenses and program revenues for each function of the Town.

Both of the government wide financial statements distinguish functions and activities of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions and activities that are intended to recover all or a significant portion of their costs through user fees or charges. The governmental activities of the Town include the broad functions of general government, public safety, education, public works, health and human services, culture and recreation, and the major services provided within each functional category. The business-type activities include the water and wood waste reclamation activities.

The government-wide financial statements include not only the Town of Chatham itself (known as the primary government), but also Eldredge Public Library, Inc. for which the Town of Chatham is contributes a majority of their funding for their annual operations. Although Eldredge Public Library, Inc. is a legal separate entity, the library receives a significant portion of their annual operating budget from the Town of Chatham and therefore, is a discretely presented component unit of the Town. The financial information of Eldredge Public Library, Inc. is reported separately from the financial information presented for the primary government itself.

TOWN OF CHATHAM, MASSACHUSETTS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	<u>General Fund</u>	<u>Wastewater Facility</u>	<u>Police Annex</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$24,002,961	\$	\$	\$ 1,337,173	\$ 25,340,134
Excise taxes	1,982,623			36,930	2,019,553
Licenses and permits	809,524			259,809	1,069,333
Penalties and interest	153,727			2,596	156,323
Investment income	64,563			115,120	179,683
Charges for services	2,291,106			251,089	2,542,195
Special assessments	250,167				250,167
Fees and fines	56,250				56,250
Contributions				110,652	110,652
Departmental and other	585,562			63,810	649,372
Intergovernmental	3,844,277			5,215,280	9,059,557
Total revenues	<u>34,040,760</u>			<u>7,392,459</u>	<u>41,433,219</u>
Expenditures					
Current:					
General government	2,676,660			720,074	3,396,734
Public safety	4,564,263		4,754,840	121,219	9,440,322
Education	10,083,144			1,783,715	11,866,859
Public works	4,632,607	9,114,298		2,709,888	16,456,793
Community development	777,132			8,184	785,316
Human services	621,266			28,649	649,915
Culture and recreation	936,934			68,386	1,005,320
Coastal resources	1,131,238			264,670	1,395,908
Employee benefits	5,026,807				5,026,807
State and county assessments	926,279				926,279
Debt Service:					
Principal	3,615,768				3,615,768
Interest and other charges	1,200,007				1,200,007
Total expenditures	<u>36,192,105</u>	<u>9,114,298</u>	<u>4,754,840</u>	<u>5,704,785</u>	<u>55,766,028</u>
Revenues over (under) expenditures	(2,151,345)	(9,114,298)	(4,754,840)	1,687,674	(14,332,809)
Other financing sources (uses)					
Transfers in from other funds	1,593,127			134,078	1,727,205
Transfers out to other funds	(644,815)			(1,693,128)	(2,337,943)
Total other financing sources and (uses)	<u>948,312</u>			<u>(1,559,050)</u>	<u>(610,738)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(1,203,033)	(9,114,298)	(4,754,840)	128,624	(14,943,547)
Fund balances, beginning of year	<u>6,267,670</u>	<u>(687,965)</u>	<u>(198,194)</u>	<u>7,489,796</u>	<u>12,871,307</u>
Fund balances, end of year	<u>\$ 5,064,637</u>	<u>\$ (9,802,263)</u>	<u>\$ (4,953,034)</u>	<u>\$ 7,618,420</u>	<u>\$ (2,072,240)</u>

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

TOWN OF CHATHAM, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2010

Fund Financial Statements

Traditional users of government financial statements will find the fund financial statement presentation to be familiar. A fund is a grouping of related accounts that is used to keep control over resources that have been allocated to specific projects or activities, the Town uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements. All of the Town funds can be divided into three categories as follows:

Governmental Funds: Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near term inflows and outflows of resources to be spent. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating the Town's near term financing requirements. This approach is the modified accrual basis of accounting, which uses the flow of current financial resources measurement focus. Such statements provide a detailed short-term view of the Town's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

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. This comparison will assist the reader in understanding the long-term impact of the government's near term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide reconciliations to facilitate the comparison. The reconciliation is presented on the page immediately following the governmental funds financial statements.

The Town maintains several governmental funds. Of the funds three are considered major funds (the general fund, the wastewater facility capital project, and the police annex capital project) and are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are aggregated and shown as other governmental funds.

The basic governmental fund financial statements can be found on the accompanying pages of this report.

Proprietary Funds: The Town of Chatham maintains two proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses the proprietary funds to account for its water and waste wood reclamation activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water operations.

The basic proprietary fund financial statements can be found in the accompanying pages of this report.

TOWN OF CHATHAM, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2010

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the Town's functions and activities. The full accrual basis of accounting is used for fiduciary funds.

The fiduciary fund financial statements provide separate information for private purpose trust funds and agency funds. The fiduciary fund financial statements can be found on the accompanying pages of this report.

Notes to the 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. The notes to the financial statements can be found the accompanying pages of this report.

Government Wide Financial analysis

Statement of Net Assets: The following table reflects the condensed schedule of net assets based on the statement of net assets found on the accompanying pages of this report.

	FY 2010	FY 2009	
	Governmental/ Business-type	Governmental/ Business-type	Percent
	<u>Activities</u>	<u>Activities</u>	<u>Change</u>
Current assets	\$ 71,244,501	\$ 31,777,603	124.20%
Capital assets	112,570,375	96,601,455	16.53%
Total assets	<u>183,814,876</u>	<u>128,379,058</u>	43.18%
Current liabilities	68,600,790	12,205,718	462.04%
Long-term liabilities	40,739,691	42,743,237	-4.69%
Total liabilities	<u>109,340,481</u>	<u>54,948,955</u>	98.99%
Net assets:			
Invested in capital assets, net of related debt	57,022,813	50,370,772	13.21%
Restricted	6,918,669	6,888,071	0.44%
Unrestricted	10,532,913	16,171,260	-34.87%
Total net assets	<u>\$ 74,474,395</u>	<u>\$ 73,430,103</u>	1.42%

The Town's net assets exceeded its liabilities at June 30, 2010 and 2009 by \$74,474,395 and \$73,430,103 (presented as net assets), respectively. Included in these amounts are unrestricted net assets of \$10,532,913 and \$16,171,260, respectively.

The components of net assets include investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, water and sewer pipes, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is \$57,022,813 and \$50,370,772 at June 30, 2010 and 2009, indicating the amount of capital debt does not exceed the net book value of the Town's capital assets. The Town uses these capital assets to service the community; therefore they are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

TOWN OF CHATHAM, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2010

Statement of Activities: The Town's total net assets (primary government) increased by \$1,044,292 and decreased by \$1,598,942 during fiscal year 2010 and 2009, respectively.

This summary schedule of activities is based upon the statement found in the accompanying pages of this report:

**Town of Chatham
Summary of Schedule of Activities – Primary Government
For the Years Ended June 30, 2010 and 2009**

	Total Primary Government		% Change
	June 30, 2010	June 30, 2009	
Revenues:			
Program Revenues:			
Charges for services	\$ 6,820,895	\$ 6,580,724	3.65%
Operating grants and contributions	5,344,188	5,610,823	-4.75%
Capital grants and contributions	2,512,631	153,065	1541.55%
Total program revenues	14,677,714	12,344,612	18.90%
General Revenues:			
Property taxes levied	25,505,942	25,323,872	0.72%
Excise taxes	2,020,511	2,193,755	-7.90%
Penalties and interest on taxes	156,323	126,367	23.71%
Grants and contributions not restricted	138,736	169,054	-17.93%
Loss on disposal of capital assets	(4,820)	(91,291)	-94.72%
Investment income	179,683	254,786	-29.48%
Miscellaneous	379,648	94,511	301.70%
Total general revenues	28,376,023	28,071,054	1.09%
Total Revenues	43,053,737	40,415,666	6.53%
Expenses:			
General government	2,926,732	3,014,946	-2.93%
Public safety	5,012,580	4,834,433	3.68%
Education	12,446,710	12,208,994	1.95%
Public works	7,941,344	7,972,334	-0.39%
Community planning and development	782,824	884,392	-11.48%
Health and human services	647,841	546,466	18.55%
Culture and recreation	1,292,397	1,348,598	-4.17%
Coastal resources	1,541,176	1,431,793	7.64%
Interest on long term debt	1,062,061	1,620,592	-34.46%
Employee fringe benefits	7,429,501	7,271,052	2.18%
State and county charges	926,279	881,008	5.14%
Total Expenses	42,009,445	42,014,608	-0.01%
Change in net assets	1,044,292	(1,598,942)	-165.31%
Net assets – beginning of year	73,430,103	75,029,045	-2.13%
Net assets – end of year	\$ 74,474,395	\$ 73,430,103	1.42%

Total Revenues

Total governmental activities revenue for 2010 and 2009 for the Town are comprised of general revenue of \$27,765,285 and \$27,671,054, charges for services of \$4,372,485 and \$3,989,585, operating grants and contributions of \$5,344,188 and \$5,610,823, capital grant and contribution revenue of \$2,512,631 and \$153,065 respectively. The significant increase in the capital grant and contribution revenue relates to the airport improvement construction grants received in fiscal year 2010.

TOWN OF CHATHAM, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2010

General Revenues

Real Estate revenues are the Town's largest revenue source at \$25,505,942 and \$25,323,872, representing 91.86% and 90.21% of general revenues, respectively. The assessed tax valuation base is \$6,364,049,234, down from \$6,411,697,516 assessed in the prior year, showing a 0.7% decrease due to a falling property values.

Program Revenues

Governmental charges for services are \$4,372,485 and \$3,989,585 representing a variety of departmental revenues. Of these amounts, the Public Works portion of \$1,752,931 and \$1,412,279, respectively, includes charges for services for the water, landfill and sewer.

Governmental operating grants and contributions of \$5,344,188 and \$5,397,823 represent several federal and state grants restricted to specific grant conditions. This accounts for approximately 13.36% and 14.51% of the total Town governmental activities revenues.

Expenses

For fiscal year ended June 30, 2010 and 2009, expenses for governmental activities totaled \$39,224,620 and \$39,375,562. Education continues to be one of the Town's highest expenditures representing \$12,446,710 and \$12,208,994 or 31.73% and 31.01% of the total governmental expenses.

This summary schedule of activities – Business-Type Activities is based upon the statement found in the accompanying pages of this report:

Town of Chatham
Summary of Activities – Business-Type Activities
For the Years Ended June 30, 2010 and 2009

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>% Change</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 2,185,667	\$ 2,361,406	-7.44%
Fines and forfeitures	18,176	21,338	-14.82%
Departmental and other		225	-100.00%
Intergovernmental		213,000	100.00%
Total operating revenues	<u>2,203,843</u>	<u>2,595,969</u>	-15.11%
Expenses:			
Salaries, wages, and employee benefits	541,300	540,357	0.17%
Expenses	1,081,300	924,054	17.02%
Depreciation	701,284	674,270	4.01%
Total expenses	<u>2,323,884</u>	<u>2,138,681</u>	8.66%
Total operating income	(120,041)	457,288	-126.25%
Non operating revenues (expenses)			
Debt service	(460,941)	(500,365)	-7.88%
Water tower lease	244,567	208,170	17.48%
Transfers in	610,738	400,000	52.68%
Total non operating revenue (expenses), net	<u>394,364</u>	<u>107,805</u>	265.81%
Change in net assets	274,323	565,093	-51.46%
Net assets – beginning of year	14,402,384	13,837,291	4.08%
Net assets – end of year	<u>\$ 14,676,707</u>	<u>\$ 14,402,384</u>	1.90%

TOWN OF CHATHAM, MASSACHUSETTS
Management's Discussion and Analysis
June 30, 2010

Financial Analysis of the Government's Fund Financial Statements

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financial 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 June 30, 2010 and 2009, the Town's governmental funds reported combined ending fund balances of (\$2,072,240) and \$12,871,307, a decrease of \$14,943,547 in fiscal year 2010 and an increase of \$10,778,911 in fiscal year 2009. As of June 30, 2010 approximately (\$0.6) million constitutes unreserved fund balance, of this amount \$1,051,333 has been appropriated for the next fiscal year. The remainder of the fund balance is reserved to indicate it is not available for new spending because it has already been committed to liquidate contracts; continued appropriations for capital outlay and improvement purposes; non-current loans receivable; non-expendable permanent fund balances.

The general fund is the chief operating fund of the Town. At June 30, 2010 and 2009, unreserved fund balance of the general fund is \$2,353,415 and \$3,085,936, respectively. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 6.5% and 8.8% of total general fund expenditures, while total fund balance represents 14.0% and 17.8% at June 30, 2010 and 2009, respectively.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. During 2002 the Government Finance Officers Association (GFOA) issued a recommendation that at a minimum, general purpose governments, regardless of size maintain unreserved fund balance in their general fund of no less than five to fifteen percent of regular general fund operating revenues, or no less than one to two months of regular general fund operating expenditures. As of June 30, 2010 and 2009 the Town's unreserved fund balance is 14.9% and 9.1% of the general fund operating revenues.

The total general fund balance of the Town decreased by \$1,203,033 or 19.2% during 2010 and increased by \$271,058 or 4.5% during 2009. For 2010 this occurred primarily because \$1.6 million of free cash was utilized to fund appropriations. For 2009 this occurred primarily because bond premiums of \$1.3 million were received and expenditures increased by 4.5%.

Property tax growth represents a combination of the annual increase allowed in the levy by proposition 2 ½ and new growth. The Town's total levy grew 1.4% and 2.6% in 2010 and 2009 (including new growth), not maximizing the allowable increase under proposition 2 ½.

General Fund Budgetary Highlights

The difference between the original expenditure budget of \$38,033,759 and the final expenditure budget of \$35,327,660 is due to \$2.7 million in encumbrances and articles being carried over to the subsequent fiscal year.

TOWN OF CHATHAM, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2010

Capital Asset and Debt Administration

Capital Assets: The Town's investment in capital assets for governmental activities as of June 30, 2010 and 2009, amounts to \$91,567,133 and \$76,353,114, which is net of accumulated depreciation of \$34,687,546 and \$32,104,012. The investment in capital assets includes land; buildings; improvements; machinery and equipment and infrastructure.

The Town's investment in capital assets for business-type activities as of June 30, 2010 and 2009, amounts to \$21,003,242 and \$20,248,341, which is net of accumulated depreciation of \$16,936,438 and \$16,395,631. The investment in capital assets includes land; buildings; machinery and equipment and infrastructure.

The table below represents a summary of the Town's capital assets by category (in thousands):

	Governmental Activities		Business-type Activities	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 27,760	\$ 27,760	\$ 3,163	\$ 3,163
Construction in progress	15,048	1,285	1,456	
Buildings and improvements	31,269	32,323	57	61
Improvements non-buildings	6,314	3,689		
Equipment, machinery & vehicles	2,627	2,611	27	33
Infrastructure	8,549	8,685	16,300	16,991
	<u>\$ 91,567</u>	<u>\$ 76,353</u>	<u>\$ 21,003</u>	<u>\$ 20,248</u>

Major capital asset events for governmental and business-type activities during 2010 include the following:

- Construction costs on airport
- Highway and sidewalk improvements
- Construction costs on police annex
- Construction costs on wastewater treatment facility
- Chemical feed building construction
- Water tank renovation

Major capital asset events for governmental and business-type activities during 2009 include the following:

- Construction costs on airport
- Highway and sidewalk improvements
- Water mains
- Sidewalk and road improvements
- Marconi and Railroad Museum construction costs

Long-term debt: At June 30, 2010, the Town had total bonded debt outstanding of \$30,225,157 and \$7,457,524 for the governmental and business-type activities, respectively, which is a decrease of 10.8% for the governmental and business-type activities from prior year. All debt is a general obligation of the Town.

TOWN OF CHATHAM, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2010

In addition the Town had short term notes of \$45,243,500 at June 30, 2010 and \$5,413,000 June 30, 2009. The short term interest rate was 0.25% - 1.50% and 1.50% - 2.25%, respectively.

The Town of Chatham maintains a bond rating of AAA with Standard and Poor's Corporation. The bond rating is significant in the respect that Chatham is the only Town in New England with an AAA bond rating that does not have access to a metropolitan economy.

Economic Factors and Next Year's Budgets and Rates

The Town has increased its property tax levy by 3.0%, which includes new growth.

The operating budget increased 1.5% over the FY 10 budget. The increase is mostly attributable to general budget inflation. The capital budget of \$1,160,183 is a decrease of 30.9% from FY 10.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. Questions concerning any information provided in this report or requests for additional information should be addressed to Town of Chatham, Attn: Accounting Office, 549 Main Street, Chatham, MA 02633.

BASIC FINANCIAL STATEMENTS

TOWN OF CHATHAM, MASSACHUSETTS
Statement of Net Assets
June 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Eldredge Public Library
<u>ASSETS</u>				
Cash and cash equivalents	\$ 42,350,255	\$ 2,721,384	\$ 45,071,639	\$ 101,811
Restricted cash and cash equivalents				51,163
Investments	7,077,050		7,077,050	3,418,833
Receivables	18,172,334	801,281	18,973,615	
Deferred Charges	112,971	9,226	122,197	
Capital assets, net of accumulated depreciation	91,567,133	21,003,242	112,570,375	15,511
Total assets	<u>\$ 159,279,743</u>	<u>\$ 24,535,133</u>	<u>\$ 183,814,876</u>	<u>\$ 3,587,318</u>
<u>LIABILITIES</u>				
Warrants payable	\$ 17,340,547	\$ 897,671	\$ 18,238,218	\$ 12,701
Accrued interest	345,368	88,257	433,625	-
Notes payable	43,893,500	1,350,000	45,243,500	-
Provision for refund of paid taxes	172,277		172,277	-
Agency and other payables	86,229		86,229	2,066
Noncurrent liabilities				-
Due within one year	3,589,211	837,730	4,426,941	-
Due in more than one year	34,054,923	6,684,768	40,739,691	17,979
Total liabilities	<u>99,482,055</u>	<u>9,858,426</u>	<u>109,340,481</u>	<u>32,746</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	44,869,016	12,153,797	57,022,813	-
Restricted	6,918,669		6,918,669	860,868
Unrestricted	8,010,003	2,522,910	10,532,913	2,693,704
Total net assets	<u>59,797,688</u>	<u>14,676,707</u>	<u>74,474,395</u>	<u>3,554,572</u>
Total liabilities and net assets	<u>\$ 159,279,743</u>	<u>\$ 24,535,133</u>	<u>\$ 183,814,876</u>	<u>\$ 3,587,318</u>

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

TOWN OF CHATHAM, MASSACHUSETTS
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Eldredge Public Library
					Governmental Activities	Business-type Activities		
Primary Government								
Governmental activities								
General government	\$ 2,926,732	\$ 269,526	\$ 546,602	\$	\$ (2,110,604)	\$	\$	
Public safety	5,012,580	988,171	302,539		(3,721,870)			
Community planning and development	782,824				(782,824)			
Education	12,446,710	171,812	2,278,449		(9,996,449)			
Public works	5,156,519	1,752,931		2,512,631	(890,957)		(890,957)	
Health and human services	647,841	65,126	14,764		(567,951)		(567,951)	
Culture and recreation	1,292,397	177,068	106,988		(1,008,341)		(1,008,341)	
Coastal resources	1,541,176	947,851	124,533		(468,792)		(468,792)	
Interest on long-term debt	1,062,061		10,899		(1,051,162)		(1,051,162)	
Employee fringe benefits	7,429,501		1,959,414		(5,470,087)		(5,470,087)	
State and county charges	926,279				(926,279)		(926,279)	
Total governmental activities	39,224,620	4,372,485	5,344,188	2,512,631	(26,995,316)		(26,995,316)	
Business-type activities								
Water fund	2,713,543	2,420,340			(293,203)		(293,203)	
Wood Waste Reclamation Center	71,282	28,070			(43,212)		(43,212)	
Total business-type	2,784,825	2,448,410			(336,415)		(336,415)	
Total primary government	\$ 42,009,445	\$ 6,820,895	\$ 5,344,188	\$ 2,512,631	(27,331,731)		(27,331,731)	
Component Unit								
Eldredge Public Library	\$ 753,194	\$	\$ 632,916	\$			(120,278)	
General revenues								
Property taxes, net of allowances for uncollectibles					25,505,942		25,505,942	
Excise taxes					2,020,511		2,020,511	
Penalties and interest on taxes					156,323		156,323	
Grants and contributions not restricted to specific programs					138,736		138,736	
Investment income					179,683		179,683	
Loss on disposal of assets					(4,820)		(4,820)	
Miscellaneous					379,648		379,648	
Transfers					(610,738)		(610,738)	
Total general revenues, special items and transfers					27,765,285		27,765,285	
Change in net assets					769,969		769,969	
Net assets - beginning of year					59,027,719		59,027,719	
Net assets - end of year					\$ 59,797,688		\$ 59,797,688	
					\$ 14,676,707		\$ 14,676,707	
					28,376,023		28,376,023	
					1,044,292		1,044,292	
					73,430,103		73,430,103	
					\$ 74,474,395		\$ 74,474,395	
					418,552		418,552	
					298,274		298,274	
					3,256,298		3,256,298	
					\$ 3,554,572		\$ 3,554,572	

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

TOWN OF CHATHAM, MASSACHUSETTS
 Balance Sheet - Governmental Funds
 June 30, 2010

	<u>General Fund</u>	<u>Wastewater Facility</u>	<u>Police Annex</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 4,949,210	\$ 18,131,330	\$ 15,633,415	\$ 3,636,300	\$ 42,350,255
Investments	802,094			6,274,956	7,077,050
Receivables, net	8,222,375	9,818,183		446,513	18,487,071
Total assets	<u>\$13,973,679</u>	<u>\$27,949,513</u>	<u>\$ 15,633,415</u>	<u>\$ 10,357,769</u>	<u>\$ 67,914,376</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 602,986	\$ 6,508,276	\$ 8,586,449	\$ 1,642,836	\$ 17,340,547
Amounts withheld from employees	86,229				86,229
Notes payable		31,243,500	12,000,000	650,000	43,893,500
Provision for refund of paid taxes	172,277				172,277
Deferred revenue	8,047,550			446,513	8,494,063
Total liabilities	<u>8,909,042</u>	<u>37,751,776</u>	<u>20,586,449</u>	<u>2,739,349</u>	<u>69,986,616</u>
<u>FUND BALANCES</u>					
Reserved for:					
Encumbrances and continued appropriations	2,711,222				2,711,222
Unreserved					
General fund	2,353,415				2,353,415
Special revenue funds				7,316,512	7,316,512
Capital projects funds		(9,802,263)	(4,953,034)	(444,568)	(15,199,865)
Permanent funds				746,476	746,476
Total fund balances	<u>5,064,637</u>	<u>(9,802,263)</u>	<u>(4,953,034)</u>	<u>7,618,420</u>	<u>(2,072,240)</u>
Total liabilities and fund balances	<u>\$13,973,679</u>	<u>\$27,949,513</u>	<u>\$ 15,633,415</u>	<u>\$ 10,357,769</u>	<u>\$ 67,914,376</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances of governmental funds	\$ (2,072,240)
Capital assets used in governmental activities are not financial resources and not reported in funds.	91,567,133
Other long-term assets are not available to pay for current-period expenditures and are deferred in funds.	8,494,063
Reporting of assets on a full accrual basis requires an estimate for uncollectible accounts.	(314,737)
Long-term liabilities, net of deferred charges, of are not due and payable in the current period and are not included in funds.	(37,531,163)
Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued.	(345,368)
Net assets of governmental activities	<u>\$ 59,797,688</u>

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

TOWN OF CHATHAM, MASSACHUSETTS

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
To Statement of Activities
For the Year Ended June 30, 2010

Revenues and other financing sources over expenditures
and other financing uses \$ (14,943,547)

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

Capital outlays during the fiscal year	17,942,292
Depreciation recorded for the fiscal year	(2,723,453)
Loss on disposal of capital assets	(4,820)

Revenues are recognized on the modified accrual basis of accounting in the fund financial statements, but are recognized on the accrual basis of accounting in the government-wide financial statements.

Net change in deferred revenue	(862,306)
Net change in allowance for uncollectible accounts	39,240

The issuance and repayment of long-term debt are recorded as other financing sources or uses in the fund financial statements, but have no effect on net assets in the government-wide financial statements. Also, governmental funds report issuance costs, premiums, discounts and similar items as expenditures when paid, whereas these amounts are deferred and amortized on a government-wide basis.

Principal payments on long-term debt	3,737,960
Amortization from bond premiums	113,144
Amortization of bond issuance costs	(14,121)

The fund financial statements record interest on long-term debt when due and revenue from related subsidies when received. The government-wide financial statements report interest on long-term debt and revenue on subsidies when incurred.

Net change in accrued interest expense	(83,271)
--	----------

Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. Changes in liabilities are as follows:

Other post employment benefits	(2,402,694)
Compensated absences	(53,455)
Landfill closure liability	<u>25,000</u>

Change in net assets of governmental activities	<u>\$ 769,969</u>
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TOWN OF CHATHAM, MASSACHUSETTS

Statement of Net Assets - Proprietary Funds

June 30, 2010

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Facility	Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,635,324	\$ 86,060	\$ 2,721,384
Receivables, net of allowances for uncollectibles	801,281		801,281
Deferred Charges	9,226		9,226
Capital assets, net of accumulated depreciation	18,778,242	2,225,000	21,003,242
Total assets	<u>\$ 22,224,073</u>	<u>\$ 2,311,060</u>	<u>\$ 24,535,133</u>
<u>LIABILITIES</u>			
Warrants payable	\$ 897,671	\$	\$ 897,671
Accrued interest payable	81,321	6,936	88,257
Notes payable	1,350,000		1,350,000
Noncurrent liabilities:			
Due within one year	687,730	150,000	837,730
Due in more than one year	5,359,768	1,325,000	6,684,768
Total liabilities	<u>8,376,490</u>	<u>1,481,936</u>	<u>9,858,426</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	11,403,797	750,000	12,153,797
Unrestricted	2,443,786	79,124	2,522,910
Total net assets	<u>13,847,583</u>	<u>829,124</u>	<u>14,676,707</u>
Total liabilities and net assets	<u>\$ 22,224,073</u>	<u>\$ 2,311,060</u>	<u>\$ 24,535,133</u>

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

TOWN OF CHATHAM, MASSACHUSETTS
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds
June 30, 2010

	Business-Type Activities		Totals
	Water Activities	Wood Waste Reclamation Facility	
Operating revenues			
Charges for services, departmental and other	\$ 2,157,597	\$ 28,070	\$ 2,185,667
Fines and forfeitures	18,176		18,176
Total operating revenues	<u>2,175,773</u>	<u>28,070</u>	<u>2,203,843</u>
Operating expenses			
Salaries and wages	541,300		541,300
Operating expenses	1,070,100	11,200	1,081,300
Depreciation	701,284		701,284
Total operating expenses	<u>2,312,684</u>	<u>11,200</u>	<u>2,323,884</u>
Operating income (loss)	(136,911)	16,870	(120,041)
Non operating revenues (expenses)			
Water tower lease	244,567		244,567
Interest expense	(400,859)	(60,082)	(460,941)
Total non-operating revenue (expenses), net	<u>(156,292)</u>	<u>(60,082)</u>	<u>(216,374)</u>
Transfers			
Transfers in from other funds	400,000	210,738	610,738
Total transfers	<u>400,000</u>	<u>210,738</u>	<u>610,738</u>
Change in net assets	106,797	167,526	274,323
Net assets at beginning of year	13,740,786	661,598	14,402,384
Net assets at end of year	<u>\$ 13,847,583</u>	<u>\$ 829,124</u>	<u>\$ 14,676,707</u>

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

TOWN OF CHATHAM, MASSACHUSETTS
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2010

	<u>Business-Type Activities</u>		
	<u>Water Activities</u>	<u>Wood Waste Reclamation Facility</u>	<u>Total Enterprise</u>
Cash flows from operating activities			
Receipts from customers and users	\$ 2,086,511	\$ 28,070	\$ 2,114,581
Payments to vendors	(187,328)	(11,200)	(198,528)
Payments to employees, including fringe benefits	(539,226)		(539,226)
Net cash provided by (used for) operating activities	<u>1,359,957</u>	<u>16,870</u>	<u>1,376,827</u>
Cash flows from noncapital financing activities			
Transfer in from General Fund	400,000	210,738	610,738
Water tower lease	244,567		244,567
Net cash used for capital and related financing activities	<u>644,567</u>	<u>210,738</u>	<u>855,305</u>
Cash flows from capital and related financing activities			
Payments of long-term debt principal	(695,970)	(150,000)	(845,970)
Proceeds from bond anticipation notes	1,350,000		1,350,000
Paydown of bond anticipation notes	(1,063,000)		(1,063,000)
Payments of interest costs	(421,290)	(60,738)	(482,028)
Net cash provided by (used for) capital and related financing activities	<u>(830,260)</u>	<u>(210,738)</u>	<u>(1,040,998)</u>
Cash flows from investing activities			
Purchase of capital assets	(1,456,185)		(1,456,185)
Net cash (used for) investing activities	<u>(1,456,185)</u>		<u>(1,456,185)</u>
Net change in cash and cash equivalents	(281,921)	16,870	(265,051)
Balances at the beginning of year	2,917,245	69,190	2,986,435
Balances at the end of year	<u>\$ 2,635,324</u>	<u>\$ 86,060</u>	<u>\$ 2,721,384</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ (136,911)	\$ 16,870	\$ (120,041)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	701,284		701,284
Changes in assets and liabilities:			
User fees receivable, net of allowance for collectibles	(89,263)		(89,263)
Warrants payable	882,772		882,772
Accrued compensated absences	2,075		2,075
Total adjustments	<u>1,496,868</u>		<u>1,496,868</u>
Net cash provided by (used for) operating activities	<u>\$ 1,359,957</u>	<u>\$ 16,870</u>	<u>\$ 1,376,827</u>

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

TOWN OF CHATHAM, MASSACHUSETTS

Statement of Net Assets - Fiduciary Funds

June 30, 2010

	Private Purpose Trust Fund	Agency Accounts
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,911	\$ 583,827
Investments		29,666
Receivables, net of allowance for uncollectibles		24,244
Total assets	<u>\$ 2,911</u>	<u>\$ 637,737</u>
<u>LIABILITIES</u>		
Warrants payable	\$	\$ 9,604
Accounts payable and other current liabilities		628,133
Total liabilities		<u>637,737</u>
<u>NET ASSETS</u>		
Held in trust	<u>2,911</u>	
Total liabilities and net assets	<u>\$ 2,911</u>	<u>\$ 637,737</u>

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

TOWN OF CHATHAM, MASSACHUSETTS
Statement of Changes in Net Assets - Fiduciary Funds
For the Year Ended June 30, 2010

	Private Purpose Trust Funds
Additions	
Interest and dividends	\$ 42
Total additions	<u>42</u>
Change in net assets	42
Net assets at beginning of year	<u>2,869</u>
Net assets at end of year	<u><u>\$ 2,911</u></u>

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

NOTES TO FINANCIAL STATEMENTS

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Note 1. Organization and Reporting Entity

A. Organization

The Town of Chatham, Massachusetts (the "Town"), was incorporated June 11, 1712. The Town operates under a Town Meeting form of government. The Town's major operations include police and fire protection, parks and recreation, public works and general administrative services. In addition, the Town owns and operates a water system, septage facility and transfer station.

B. Reporting Entity

General

The accompanying financial statements present the Town of Chatham, Massachusetts (the primary government) and its component units. Component units are included in the reporting entity if their operational and financial relationships with the Town are significant. One entity has been included as a component unit in the reporting entity, because of the significance of their financial relationship with the Town.

Discretely Presented Component Units – Discretely presented component units are entities that are legally separate from the Town, but are financially accountable to the Town, or whose relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Town has included the Eldredge Public Library as a Discretely Presented Component Unit because they are fiscally dependent on the Town and because the nature and significance of their relationship with the Town is such that exclusion would cause the Town's financial statements to be misleading or incomplete. Accordingly, the Component Unit column of the government-wide financial statements includes the financial data of the Eldredge Public Library. Complete financial statements of the component unit can be obtained directly from the administrative office of Eldredge Public Library, Inc, located at 564 Main Street, Chatham, MA.

Joint Ventures

The Town has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specific recipients. The following is a list of the Town's joint ventures, their purpose, and the annual assessment paid by the Town. Financial statements may be obtained from each the joint ventures by contacting each of them directly. The Town does not have an equity interest in these joint ventures.

<u>Joint venture and address</u>	<u>Purpose</u>	<u>Assessment</u>
Cape Cod Municipal Health Group c/o Group Benefits Strategies 27 Midstate Office Park Auburn, MA 01501	To provide employee health insurance	\$ 5,253,165
Cape Cod Regional Technical High School Route 124 Harwich, MA 02645	To provide vocational education to students 9-12 grade	\$ 183,157
Cape Cod Regional Transit Authority 585 Main Street Dennis, MA 02638	To provide regional transportation services	\$ 14,064
District Department of Veteran Services PO Box 429 Hyannis, MA 02601	To provide services to veterans	\$ 33,454
Pleasant Bay Resource Management Alliance P.O. Box 1584 Harwich, MA 02645	To protect the vast natural resources of Pleasant Bay	\$ 33,133

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Related Organizations

The Chatham Housing Authority is a public body, politic and corporate organized and existing under Massachusetts General Laws, Chapter 121B and thus, the Town has no accountability for this organization. The Board of Commissioners, four who are elected and the fifth appointed by the Commonwealth are legally responsible for the overall operation.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town is discussed below.

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Town's police and fire protection, parks and recreation, public works, schools, and general administrative services are classified as governmental activities. The Town's water and wood waste reclamation operations are classified as business-type activities.

Government-wide Statements

In the government-wide Statement of Net Assets the non-fiduciary activities of the primary government and its component unit are reported. Both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The component unit of the Town is reported in a separate column. The Town's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions, business-type activities and component units. Gross expenses (including depreciation) are reduced on the Statement of Activities by related program revenues, operating and capital grants. Program revenues must be directly associated with the function, a business-type activity or component unit. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function, business-type activity or component unit) are normally covered by general revenue.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Certain costs, such as property and liability insurance, among others are not allocated among the Town's functions and are included in general government expenses in the Statement of Activities. Employee fringe benefit costs are reported in a separate "Employee Benefits" function.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following governmental fund types are used by the Town:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

- General fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.
- Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- Debt service funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt. Currently, the Town does not utilize a debt service fund.
- Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and capital outlays financed from bond proceeds (other than those financed by business-type/proprietary funds).
- Permanent funds are used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town:

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

- Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues, has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or establishes fees and charges based on a pricing policy designed to recover similar costs.
- Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the Town on a cost-reimbursement basis. Currently, the Town does not utilize internal service funds.

Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds. The following is a description of the fiduciary funds of the Town:

- Private purpose trust funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements.
- Agency funds are used to hold funds on behalf of parties other than the Town, including federal and state agencies and public school student activities. Agency funds are custodial in nature and do not involve measurement of results of operations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town may electively add funds, as major funds, which have specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

B. Measurement Focus and Basis of Accounting

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

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and property tax revenues are considered available if they are collected within 60 days after fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt, or earlier, if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

C. Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" include all demand, savings accounts, and certificates of deposits of the Town.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in the notes.

D. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

E. Receivables

Receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible amounts. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The Town classifies outstanding personal property taxes and motor vehicle and boat excise three years or more years old as uncollectible for financial reporting purposes. The Town estimates 3% of outstanding water, septage and transfer station charges and 25% of ambulance charges to be uncollectible. Outstanding real estate taxes are secured by tax liens, and therefore considered to be fully collectable.

F. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Government-wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002.

Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

➤ Buildings	25-50 years
➤ Improvements	10-50 years
➤ Machinery and Equipment	3-20 years
➤ Utility System	25-50 years
➤ Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

G. Long-term Obligations

The accounting treatment of long-term obligations depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term obligations consist primarily of notes and bonds payable, accrued compensated absences, and post closure monitoring costs for municipal landfills.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the governmental-wide statements.

H. Compensated Absences

The Town's policies and provisions of bargaining unit contracts regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term obligations in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

TOWN OF CHATHAM, MASSACHUSETTS
Notes to Financial Statements
June 30, 2010

I. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Permanent fund balances are classified as reserved and are further classified between expendable and non-expendable portions. Proprietary fund equity is classified the same as in the governmental-wide statements.

J. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results will differ from those estimates.

K. Total columns

The total column presented on the government-wide financial statements represents consolidated financial information.

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

Note 3. Stewardship, Compliance and Accountability

A. Property tax calendar and limitations

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent November 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to lien, interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

A statewide property tax limitation statute known as "Proposition 2 ½" limits the property tax levy to an amount equal to 2 ½ % of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2 ½ %, plus taxes levied on certain property newly added to the tax rolls ("new growth"). Certain Proposition 2 ½ taxing limitations can be overridden by a town-wide referendum vote.

B. Budgetary basis of accounting

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

The budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund and enterprise fund functions are budgeted; the town does not have legally adopted annual budgets for its special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). A comparison of the budget to actual amounts on a "budgetary basis" is provided as required supplementary information to provide a meaningful comparison with the budget.

C. Fund equities

Operations of the various Town funds for the fiscal year were funded in accordance with the General Laws of Massachusetts. The Town classifies fund equity in the fund financial statements as either reserved or unreserved fund balance. Unreserved fund balance is further broken down between designated and undesignated.

Fund balance reserved for encumbrances and continued appropriations consists of the budgeted amounts carried over to the next fiscal year for operating costs committed at June 30 and the balance of appropriations for capital expenditures and longer term projects which are continued until completion of the authorized project. Encumbrances outstanding at year-end are reported as a reservation of fund balance and do not constitute expenditures or liabilities.

Fund balance designated for expenditure consists of available funds (free cash) and other available funds from unreserved fund equity appropriated by Town Meeting action to be used in funding next year's operations.

Deficit fund equity consists of the excess of expenditures over appropriations, in the General Fund. Bond anticipation note proceeds are not permanent funding and therefore do not represent a funding source for capital projects. Capital Project Fund deficits will occur and will be funded in future years through the issuance of long-term debt.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

At June 30, 2010 the Town had the following general fund equities in the fund financial statements:

Reserved for encumbrances and continued appropriations	\$ 2,711,222
Unreserved:	
Undesignated	1,042,384
Designated for debt exclusion	492,853
Designated for unprovided abatements and exemptions	(233,155)
Designated for expenditure	1,051,333
Total unreserved	<u>2,353,415</u>
Total General Fund Equities	<u>\$ 5,064,637</u>

All other governmental fund balances are reported on the fund basis Balance Sheet as Unreserved Fund Balance, reported in their respective fund types.

D. Restricted Net Assets

Certain net assets reported as special revenue funds in the Town's fund basis Balance Sheet including the Town's Stabilization Fund are classified as unrestricted net assets because they are available for appropriation to fund the general operations of the Town.

Restricted net assets on the government-wide statement of net assets consist of the following:

Capital Project Fund balances	\$ 158,966
Special Revenue Fund balances:	
Community Preservation Act Fund	2,116,626
Cape Cod Land Bank Fund	1,521,321
Other special revenue funds	2,375,280
Permanent Funds:	
Expendable	123,284
Non-expendable	<u>623,192</u>
Total restricted net assets	<u>\$ 6,918,669</u>

Note 4. Cash and investments

Massachusetts General Laws, Chapter 44, Section 54 and 55, place certain limitations on cash deposits and investments available to the Town. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The Town may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The Town may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The Town may invest in units of the Massachusetts Municipal Depository Trust (MMDT), an external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

TOWN OF CHATHAM, MASSACHUSETTS
Notes to Financial Statements
June 30, 2010

The Town maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. At June 30, 2010 deposits totaled \$32,472,690 and had a carrying amount of \$45,658,377. Of the deposit amount, \$599,679 was exposed to custodial credit risk at June 30, 2010 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

At June 30, 2010 the carrying amount of deposits for the Component Unit totaled \$152,974. The total bank balance was covered by Federal Depository Insurance. Of the total carrying amount of deposits, \$51,163 is required to be held in a separate account until the donor of the funds specifies a purpose for the funds.

The Town's investments are as follows:

<u>Investment Type</u>	<u>Fair Market</u>		<u>12 months or less</u>	<u>Maturity</u>	
	<u>Value</u>	<u>Rating</u>		<u>1 to 5 Years</u>	<u>6 to 10 Years</u>
U.S. treasury notes	\$ 1,494,195	AAA	\$	\$ 807,155	\$ 687,040
Common Stock	116,650	N/A	116,650		
MMDT	3,177,823	N/A	3,177,823		
Money Market Securities	702,339	N/A	702,339		
Certificates of Deposit	1,147,460	N/A	852,391	295,069	
Mutual Funds	65,650	N/A	65,650		
Corporate Bnds	402,599	A - AA+		402,599	
Total governmental activities	\$ 7,106,716		\$ 4,914,853	\$ 1,504,823	\$ 687,040

The Component Unit's investments are as follows:

<u>Investment Type</u>	<u>Fair Market</u>		<u>Maturity</u>
	<u>Value</u>	<u>Rating</u>	<u>12 months or less</u>
Cash held for investment	213,856	N/A	213,856
Mutual Funds	3,204,977	N/A	3,204,977
Total component unit	\$ 3,418,833		\$ 3,418,833

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's investment policy addresses custodial credit risk by tracking the credit worthiness and diversification for all unsecured bank deposits.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Town's investment policy minimizes interest rate risk by structuring the investments so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter term banking instruments, securities, money market mutual funds, or similar investment pools. The approximate maturities of the Town's debt investments are disclosed in the above table.

Concentration of credit risk – The Town does not have an investment policy, which limits the amount that can be invested in any one issuer or security. Excluding U.S. Treasury securities, mutual funds and external investment pools, there are no securities or issuers, which represent more than 5% of the total investments of the general fund/governmental activities and fiduciary funds respectively.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed in the above table. Equity securities and equity mutual funds are not rated as to credit risk. The average ratings of the Town's corporate bonds are disclosed in the above table. The Town's investment policy minimizes credit risk by diversification, prudent selection of investment instruments and limiting investments to highly safe types of securities.

Note 5. Receivables

The Town reports the aggregate amount of receivables in the accompanying Statement of Net Assets and Balance Sheet. In addition, governmental funds report, on the Balance Sheet, deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenues, if any, are also reported on the Statement of Net Assets.

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>	<u>Deferred Revenue</u>
Real estate and personal property taxes	\$ 628,538	\$ (108,508)	\$ 520,030	\$ 490,256
Tax liens, deferrals and foreclosures	592,189		592,189	555,646
Motor vehicle and other excise	242,714	(168,653)	74,061	242,714
Departmental and other	242,374	(37,576)	204,798	242,374
Betterments and special assessments	700,847		700,847	700,847
Intergovernmental:				
Commonwealth highway awards	214,449		214,449	214,449
School Building Assistance	5,825,556		5,825,556	5,825,556
Community Preservation Act Match	209,292		209,292	209,292
MWPAT Interim Note Drawdown Outstanding	9,818,183		9,818,183	
Accrued debt service subsidies	12,929		12,929	12,929
	<u>18,487,071</u>			<u>\$ 8,494,063</u>
Total on governmental fund basis	<u>18,487,071</u>	<u>\$ (314,737)</u>	<u>\$ 18,172,334</u>	
Totals on entity-wide basis	<u>\$ 18,487,071</u>	<u>\$ (314,737)</u>	<u>\$ 18,172,334</u>	

The Town includes the following receivables for individual major and non-major governmental funds, and fiduciary funds in the aggregate, including applicable allowances for uncollectible amounts and amounts deferred and unearned:

The Massachusetts Water Pollution Abatement Trust (MWPAT) draw down outstanding noted above relates to a \$12,243,500 interim loan (Note 9) issued to the Town on January 22, 2010 for the wastewater treatment facility project. The funds for this interim loan will be disbursed to the Town as reimbursements for the project. It is anticipated all funds will be disbursed to the Town by July 2012. During the current fiscal year the Town received \$2,425,317, leaving \$9,818,183 outstanding.

Receivables for the Town's business-type activities (Water) consist of the following:

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>
Water rates and charges	\$ 167,869	\$	\$ 167,869
Unbilled water rates	658,061		658,061
Allowance for uncollectible		(24,649)	(24,649)
Totals	<u>\$ 825,930</u>	<u>\$ (24,649)</u>	<u>\$ 801,281</u>

TOWN OF CHATHAM, MASSACHUSETTS
Notes to Financial Statements
June 30, 2010

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 27,759,669	\$	\$	\$ 27,759,669
Construction in Progress	1,285,171	13,763,233		15,048,404
Sub-total	<u>29,044,840</u>	<u>13,763,233</u>		<u>42,808,073</u>
Capital assets being depreciated:				
Buildings and related improvements	46,479,875	165,869		46,645,744
Improvements other than buildings	8,958,160	3,087,917		12,046,077
Equipment, machinery & vehicles	5,551,774	591,810	144,739	5,998,845
Infrastructure	18,422,477	333,463		18,755,940
Sub-total	<u>79,412,286</u>	<u>4,179,059</u>	<u>144,739</u>	<u>83,446,606</u>
Less accumulated depreciation:				
Buildings and related improvements	14,157,057	1,220,105		15,377,162
Improvements other than buildings	5,269,229	462,266		5,731,495
Equipment, machinery & vehicles	2,941,242	570,397	139,919	3,371,720
Infrastructure	9,736,484	470,685		10,207,169
Sub-total	<u>32,104,012</u>	<u>2,723,453</u>	<u>139,919</u>	<u>34,687,546</u>
Governmental capital assets, net	<u>\$ 76,353,114</u>	<u>\$ 15,218,839</u>	<u>\$ 4,820</u>	<u>\$ 91,567,133</u>
<u>Business-type activities:</u>				
Water Activities				
Capital assets not being depreciated:				
Land	\$ 938,433	\$	\$	\$ 938,433
Construction in progress		1,456,185		1,456,185
Sub-total	<u>938,433</u>	<u>1,456,185</u>		<u>2,394,618</u>
Capital assets being depreciated:				
Buildings and related improvements	199,109			199,109
Equipment, machinery & vehicles	44,577			44,577
Infrastructure	33,236,853			33,236,853
Sub-total	<u>33,480,539</u>			<u>33,480,539</u>
Less accumulated depreciation:				
Buildings and related improvements	137,675	4,978		142,653
Equipment, machinery & vehicles	12,339	5,485		17,824
Infrastructure	16,245,617	690,821		16,936,438
Sub-total	<u>16,395,631</u>	<u>701,284</u>		<u>17,096,915</u>
Water activities capital assets, net	<u>18,023,341</u>	<u>754,901</u>		<u>18,778,242</u>
Wood Waste Activities				
Land	2,225,000			2,225,000
Wood Waste activities capital assets, net	<u>2,225,000</u>			<u>2,225,000</u>
Business-Type capital assets, net	<u>\$ 20,248,341</u>	<u>\$ 754,901</u>	<u>\$</u>	<u>\$ 21,003,242</u>
<u>Component unit activities:</u>				
Capital assets not being:				
Equipment & Furniture	\$ 328,248	\$	\$	\$ 328,248
Less accumulated depreciation:				
Equipment & Furniture	298,376	14,361		312,737
Component unit capital assets, net	<u>\$ 29,872</u>	<u>\$ (14,361)</u>	<u>\$</u>	<u>\$ 15,511</u>

TOWN OF CHATHAM, MASSACHUSETTS
Notes to Financial Statements
June 30, 2010

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 129,637
Public safety	181,065
Education	614,371
Public works	1,132,071
Health and human services	18,347
Culture and recreation	378,760
Coastal resources	<u>269,202</u>
Total depreciation expense – governmental activities	<u>\$ 2,723,453</u>
Business-type activities:	
Water/Total	<u>\$ 701,284</u>
Component unit activities:	
Eldredge Public Library/Total	<u>\$ 14,361</u>

Note 7. Interfund balances and activity

Interfund transfers for the fiscal year ended June 30, 2010, consisted of the following:

	General Fund	Other Governmental Funds	Business-Type Water Fund	Business-Type Wood Waste Fund
Amounts transferred from Waterways Improvement to fund FY 2010 operating budget	\$ 268,000	\$ (268,000)	\$	\$
Amounts transfer from Land Bank Fund to supplement FY 2010 budget	952,380	(952,380)		
Amounts transferred from Stabilization Fund to supplement FY 2010 budget	5,123	(5,123)		
Amounts transferred from Wetlands Protection Funds to supplement FY 2010 budget	10,000	(10,000)		
Amounts transferred from Cemetery Sale of Lots to fund FY 2010 budget	5,000	(5,000)		
Amounts transferred from Railroad Museum fund to supplement FY 2010 budget	3,000	(3,000)		
Amounts transferred from Community Preservation Act to fund FY 2010 operating budget	314,625	(314,625)		
Amounts transferred from Shellfish Revolving Fund to fund FY 2010 operating budget	25,000	(25,000)		
Amounts transferred from Perpetual Care fund to supplement the FY 2010 budget	10,000	(10,000)		
Amounts transferred from General Fund to Pleasant Bay Alliance Management Fund to fund operations	(33,133)	33,133		
Amounts transferred from General Fund to Woodwaste Fund to fund debt service costs	(210,738)			210,738
Amounts transferred from General Fund to Railroad Museum	(945)	945		
General Fund funding of Water Fund	(400,000)		400,000	
Amounts transferred from Water Fund to fund indirect costs appropriated in General Fund.	349,219		(349,219)	
Totals on budgetary basis	<u>1,297,531</u>	<u>(1,559,050)</u>	<u>50,781</u>	<u>210,738</u>
Water Fund overhead reclassified for modified accrual basis	(349,219)		349,219	
Totals on governmental fund basis	<u>\$ 948,312</u>	<u>\$ (1,559,050)</u>	<u>\$ 400,000</u>	<u>\$ 210,738</u>

TOWN OF CHATHAM, MASSACHUSETTS
Notes to Financial Statements
June 30, 2010

Note 8. Long-term obligations

Long-term debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2010:

<u>Purpose</u>	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Governmental activities:					
Sewer-filtration beds, subsidized, due 2017	\$ 68,134	\$	\$ 22,077	\$ 46,057	\$ 22,705
MWPAT Septic betterment subsidized bond, due 2023	129,977		10,853	119,124	10,852
Municipal purposes-refunding, 3.98%, due 2021	1,803,506		288,530	1,514,976	290,010
Municipal purposes-refunding, 2.5%-5.0%, due 2016	4,155,000		775,000	3,380,000	675,000
Municipal purposes, 3.75%-4.1%, due 2025	4,715,000		645,000	4,070,000	645,000
Municipal purposes, subsidized, due 2025	42,500		2,500	40,000	2,500
Municipal purposes - refunding, 3.0%-5.0%, due 2019	9,865,000		1,095,000	8,770,000	925,000
Municipal purposes, 3.0% - 5.0%, due 2028	13,184,000		899,000	12,285,000	880,000
Subtotal long-term bonds	33,963,117		3,737,960	30,225,157	3,451,067
Unamortized bond premiums	1,227,273		113,144	1,114,129	113,144
Total long-term bonds	35,190,390		3,851,104	31,339,286	3,564,211
Landfill closure and monitoring liability	375,000		25,000	350,000	25,000
Other post employment benefits	2,426,750	3,094,256	691,562	4,829,444	
Compensated absences	1,071,948	53,456		1,125,404	
Total governmental noncurrent liabilities	\$ 39,064,088	\$ 3,147,712	\$ 4,567,666	\$ 37,644,134	\$ 3,589,211
Business-type activities:					
Water Activities					
Land acquisition, 5.23%, due 2014	\$ 61,494	\$	\$ 11,470	\$ 50,024	\$ 9,990
Municipal purposes-refunding, 3.98%, due 2021	2,140,000		355,000	1,785,000	355,000
Land acquisition, 3.78%, due 2011	120,000		40,000	80,000	40,000
Municipal purposes, 3.75% - 4.1%, due 2025	2,695,000		170,000	2,525,000	170,000
Municipal purposes, 4.25%, due 2049	500,000		70,000	430,000	12,500
Municipal purposes, 3.0% - 5.0%, due 2028	622,000		12,500	609,500	35,000
Municipal purpose - refunding, 3.0% - 5.0%, due 2019	540,000		37,000	503,000	60,000
Subtotal long-term bonds payable	6,678,494		695,970	5,982,524	682,490
Unamortized bond premiums	47,161		5,240	41,921	5,240
Total long-term bonds payable	6,725,655		701,210	6,024,445	687,730
Compensated absences	20,978	2,075		23,053	
Total water activities noncurrent liabilities	\$ 6,746,633	\$ 2,075	\$ 701,210	\$ 6,047,498	\$ 687,730
Wood Waste Activities					
Land acquisition, 3.0% - 5.0%, due 2028	\$ 1,625,000	\$	\$ 150,000	\$ 1,475,000	\$ 150,000
Total wood waste activities noncurrent liabilities	1,625,000		150,000	1,475,000	150,000
Total business-type activities noncurrent liabilities	\$ 8,371,633	\$ 2,075	\$ 851,210	\$ 7,522,498	\$ 837,730
Component unit activities:					
Compensated absences	\$ 17,206	\$ 773	\$	\$ 17,979	\$
Total component unit activities noncurrent liabilities	\$ 17,206	\$ 773	\$	\$ 17,979	\$

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Outstanding Massachusetts Water Pollution Abatement Trust (MWPAT) bonds are recorded at the gross amount outstanding, as the Town is obligated to repay the full amount outstanding including interest; however, it is anticipated that the Commonwealth of Massachusetts will subsidize the interest portion of the debt service via contract payments to MWPAT (and MWPAT available earnings). These payments are recorded as revenue and expenses in the accompanying entity-wide financial statements; however, these payments are not included in the budgetary basis supplementary information because it is not part of the local budget.

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2010, including interest, are as follows:

Year Ending June 30,	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 3,451,067	\$ 1,160,669	\$ 4,611,736	\$ 832,490	\$ 283,979	\$ 1,116,469
2012	3,018,171	1,038,001	4,056,172	821,010	252,975	1,073,985
2013	3,160,115	921,144	4,081,259	725,714	224,177	949,891
2014	3,135,337	802,119	3,937,456	670,492	197,614	868,106
2015	2,753,223	690,671	3,443,894	612,606	172,953	785,559
2016 – 2020	10,465,893	1,844,268	12,310,161	2,202,712	551,311	2,754,023
2021 – 2025	3,383,852	542,600	3,926,452	1,037,500	218,181	1,255,681
2026 – 2030	857,499	35,806	893,305	317,500	69,421	386,921
2031 – 2035				62,500	45,156	107,656
2036 – 2040				62,500	31,875	94,375
2041 – 2045				62,500	18,594	81,094
2046 – 2050				50,000	5,313	55,313
Totals	<u>\$ 30,225,157</u>	<u>\$ 7,035,278</u>	<u>\$ 37,260,435</u>	<u>\$ 7,457,524</u>	<u>\$ 2,071,549</u>	<u>\$ 9,529,073</u>

The Town is subject to a dual level general debt limit—the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Department of Revenue. Additionally, there are many categories of general obligation debt that are exempt from the debt limit but are subject to other limitations.

Unissued debt authorizations consist of the following at June 30, 2010:

<u>Purpose</u>	<u>Year(s) Authorized</u>	<u>Amount</u>
Community septic - betterment	2002	\$ 150,000
Water – standpipe, mains	2001	450,000
School renovations & construction	1995	12,000
Planning – roads	1995	150,000
Landfill closure	2004	330,000
Community center	2003	15,000
Road betterment	2003	114,000
Land acquisition	2006	910,000
Police department / Annex town offices	2007	3,400,000
Road/sidewalk/bike path	2007	800,000
Police department / Annex town offices	2008	1,140,051
Police department / Annex town offices	2008	276,000
Water main replacement	2010	500,000
Wastewater Treatment Facility	2009	29,064,500
Ell Street and Sky Way Improvements	2009	220,000
		<u>\$ 37,531,551</u>

TOWN OF CHATHAM, MASSACHUSETTS
Notes to Financial Statements
June 30, 2010

Lease obligations

A. Operating leases

The Town has entered into a number of operating leases to support governmental activities, some of which are non-cancelable but otherwise are subject to annual appropriation. The annual minimum required lease payment for non-cancelable operating leases are immaterial as of June 30, 2010.

B. Capital leases

In accordance with Massachusetts General Laws, the Town may enter into lease agreements for a period not exceed five years and subject to annual appropriation. The Town does not have any material capital lease obligations outstanding as of June 30, 2010.

Note 9. Temporary borrowings

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow on a temporary (short-term) basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of tax anticipation notes (TANs),
- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs),
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures for temporary borrowings are accounted for in the General Fund. Temporary borrowings are recorded as liabilities in the Capital Project Funds.

Changes in the Town's short-term debt for the year ended June 30, 2010 are as follows:

<u>Governmental Activities</u>							
<u>Type/ Dated Date</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance July 1, 2009</u>	<u>Issued</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
BAN 6/30/2009	Municipal Purposes	1.50%	6/30/2010	\$ 4,350,000		\$ (4,350,000)	
RAN 11/12/2009	Municipal Purposes	1.20%	1/11/2010		5,000,000	(5,000,000)	
Interim Loan 1/22/2010	Municipal Purposes	0.25%	12/31/2010		12,243,500		12,243,500
BAN 3/15/2010	Municipal Purposes	0.50%	6/30/2010		9,600,000	(9,600,000)	
BAN 6/30/2010	Municipal Purposes	1.50%	6/30/2011		31,650,000		31,650,000
Total Governmental Activities				\$ 4,350,000	\$ 58,493,500	\$ (18,950,000)	\$ 43,893,500

<u>Business-Type Activities</u>							
<u>Type/ Dated Date</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance July 1, 2009</u>	<u>Issued</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
Water Activities:							
BAN 7/25/2008	Municipal Purposes	2.25%	7/25/2009	\$ 713,000		\$ (713,000)	
BAN 6/30/2009	Municipal Purposes	1.50%	6/30/2010	350,000		(350,000)	
BAN 6/30/2010	Municipal Purposes	1.50%	6/30/2011		1,350,000		1,350,000
Subtotal Water Activities				1,063,000	1,350,000	(1,063,000)	1,350,000
Total Business-Type Activities				\$ 1,063,000	\$ 1,350,000	\$ (1,063,000)	\$ 1,350,000

Since proceeds from bond anticipation notes are not considered permanent funding sources, the Town has deficit fund balances in the Capital Projects Fund. These deficits will be funded through long-term borrowing.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Since proceeds from bond anticipation notes are not considered permanent funding sources, the Town has deficit fund balances in the Capital Projects Fund. These deficits will be funded through long-term borrowing.

The interim loan above was issued by the MWPAT on January 22, 2010 for the wastewater treatment facility project. This loan is eligible for grant funding received under the American Recovery and Reinvestment Act of 2009 (ARRA). Accordingly, the construction project is subject to special ARRA conditions and requirements for the duration of the project. Upon completion and issuance of approved project completion certificates the loan of \$12,243,500 qualifies for principle forgiveness of \$1,435,011 representing nearly 12% in savings on project costs.

Note 10. Employee Benefits

A. Retirement Benefits

Plan Description

The Town of Chatham, Massachusetts contributes for eligible employees, other than teachers, to the Barnstable County Retirement Association (Association), a cost-sharing multiple-employer defined benefit pension plan administered by the Barnstable County Retirement Association. The Association provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Association is governed by the applicable provisions of Chapter 32 of the Massachusetts General Law (M.G.L.) and other applicable statutes. Oversight is provided by a five-member board. The Association issues an annual report which is available to the public and may be obtained by contacting the Commonwealth of Massachusetts, Public Employee Retirement Administration Commission (PERAC), One Ashburton Place, Boston, MA 02108. Teachers are covered by the Commonwealth of Massachusetts, Teachers Retirement System (TRS), to which the Town does not contribute.

Funding Policy

Plan members are required to contribute 5-11% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The Town's current year contribution is \$1,508,841, which was equal to its required contribution. The contribution requirements of plan members and the Town are established and may be amended by M.G.L. The Town's contributions to the Association for the years ending June 30, 2009 and 2008 were \$1,448,316 and \$1,148,337, respectively, which were equal to the required contributions for each year.

As noted above, the Town does not contribute to TRS. Contributions to the TRS are made by the Commonwealth of Massachusetts on behalf of the Town. Accounting Principles Generally Accepted in the United States require the Town to record such "on behalf payments" as revenue and expenditures in the financial statements. Accordingly, \$1,959,414 of pension benefits paid by the Commonwealth of Massachusetts on behalf of the Town is included in the accompanying Statement of Activities as Employee Benefits operating contributions and expense and in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance as general fund intergovernmental revenue and employee benefits expenditures. These on-behalf payments are not part of the local budget and therefore, are not included in the accompanying budgetary basis statements.

B. Compensated Absences

Employees earn vacation and sick leave as they provide services. The cost of vacation and sick leave benefits is recorded as an expenditure of the applicable fund when incurred. Vacation and sick pay accumulates for various groups of employees based upon personnel by-laws and their respective collective bargaining agreements. Accumulated unused sick leave is due to certain

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

C. Other Post Employment Benefits

In addition to the pension benefits described above, the Town provides postretirement healthcare benefits to all employees who retire from the Town on or after attaining age 55 with 10 or more years of service. Currently, the Town pays 50% of the health, dental, life and vision insurance premiums for approximately 140 retirees and their dependents. The cost of retiree's healthcare benefits is recognized as an expenditure as premiums are paid. For 2010, those costs approximated \$691,562.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the provisions of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation.

Annual required contribution	\$ 3,094,256
Interest on net OPEB obligation	
Adjustment to annual required contribution	
Annual OPEB cost (expenses)	<u>3,094,256</u>
Contributions made	<u>(691,562)</u>
Increase in net OPEB obligation	2,402,694
Net OPEB obligation, beginning year	<u>2,426,750</u>
Net OPEB obligation, end of year	<u><u>\$ 4,829,444</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 3,094,256	22.3%	\$ 2,402,694
6/30/2009	\$ 3,094,256	21.6%	\$ 2,426,750
6/30/2008	N/A	N/A	N/A

Funding Status and Schedule of Funding Progress

The unfunded actuarial liability was determined using a thirty year open amortization basis increasing at 4.5%.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/c]
6/30/2008	\$	\$ 40,775,669	\$ 40,775,669	0.00%	\$ 17,166,681	237.5%

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Cost Method: Projected Unit Credit

Investment Rate of Return: 5.0% per annum

Healthcare Trend Rates:	<u>Year</u>	<u>Medical</u>	<u>Dental</u>
	FY 2009	9.00%	5.0%
	FY 2010	8.25%	5.0%
	FY 2011	7.50%	5.0%
	FY 2012	6.75%	5.0%
	FY 2013	6.00%	5.0%
	FY 2014	5.25%	5.0%
	FY 2015	5.00%	5.0%

General Inflation Assumption: 4.5% per annum

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortization payments increasing at 4.5% over 30 years

Remaining Amortization Period: 30 years at June 30, 2008

Note 11. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years thereafter. The landfill has stopped accepting solid waste and pursuant to a Massachusetts Department of Environmental Protection consent order, the Town has placed a final cover on its landfill.

As of June 30, 2010, \$350,000 has been reported on the Town's statement of net assets as an estimated remaining liability for post-closure monitoring costs of the landfill. Actual costs may change due to the finalizing of regulations with regulatory authorities, changing technology, and inflation.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. The Town carries commercial insurance for all risk except health insurance.

As discussed in Note 1, the Town participates in the Cape Cod Municipal Health Group (the Group), a municipal joint-purchase group consisting of 52 governmental units, formed pursuant to Massachusetts General Law Chapter 32B to provide employee insurance benefits. Employees and the Town both contribute to the Group based upon a 70% (Town) and 30% (Employee) primary care premium formula. The Town budgets, annually, in the general fund for its estimated share of contributions. At June 30, 2010, the Group had net assets of \$23,554,646 (unaudited).

Note 13. Commitments and Contingencies

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

Note 14. Implementation of New GASB Pronouncements

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which the Town believes are applicable to its financial statements.

Current pronouncements

The GASB issued Statement #51, Accounting and Reporting for Intangible Assets, which is required to be implemented in fiscal year 2010. The standards in this statement currently do not apply to the Town and therefore did not impact the Town's financial statements.

The GASB issued Statement #53, Accounting and Financial Reporting for Derivative Instruments, which was required to be implemented in fiscal year 2010. The standards in this statement currently do not apply to the Town and therefore did not impact the basic financial statements.

Future pronouncements

The GASB issued Statement #54, Fund Balance Reporting and Governmental Fund Type Definitions, which is required to be implemented in fiscal year 2011. This pronouncement will change fund balance classifications and definitions and will impact the presentation of the Town's financial statements.

The GASB issued Statement #57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, which is required to be implemented in fiscal year 2012. The Town expects that this pronouncement will require additional disclosure and impact the basic financial statements.

The GASB issued Statement #59, Financial Instruments Omnibus, which is required to be implemented in fiscal year 2011. The Town expects that this pronouncement will require additional disclosure and impact the basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2010

Note 15. Subsequent Events

On December 6, 2010 the Towns of Chatham and Harwich held special town meetings. A vote was held regarding the creation of a regional school district consistent with the terms of Chapter 71 of the Massachusetts General Laws. Both towns voted in favor of the article. July 1, 2012 is the official start of the regional school district.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, MASSACHUSETTS

Required Supplementary Information

June 30, 2010

Funding Status and Schedule of Funding Progress

The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The unfunded actuarial accrued liability was determined using thirty year open amortization basis increasing at 4.5%.

The Town was required to implement the provisions of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, for the year ended June 30, 2009. Accordingly, valuations for preceding periods were not required.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/c]
6/30/2008	\$	\$ 40,775,669	\$ 40,775,669	0.00%	\$ 17,166,681	237.5%
6/30/2007	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2006	N/A	N/A	N/A	N/A	N/A	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and 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.

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/2010	\$ 3,094,256	22.3%
6/30/2009	\$ 3,094,256	21.6%
6/30/2008	NA	NA

Actuarial Methods and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

TOWN OF CHATHAM, MASSACHUSETTS

Required Supplementary Information

June 30, 2010

Actuarial Cost Method: Projected Unit Credit

Investment Rate of Return: 5.0% per annum

Healthcare Trend Rates:

<u>Year</u>	<u>Medical</u>	<u>Dental</u>
FY 2009	9.00%	5.0%
FY 2010	8.25%	5.0%
FY 2011	7.50%	5.0%
FY 2012	6.75%	5.0%
FY 2013	6.00%	5.0%
FY 2014	5.25%	5.0%
FY 2015	5.00%	5.0%

General Inflation Assumption: 4.5% per annum

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortization payments increasing at 4.5% over 30 years

Remaining Amortization Period: 30 years at June 30, 2008

TOWN OF CHATHAM, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis
General Fund - Budget and Actual
For the Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and payments in lieu	\$ 24,118.924	\$ 24,118.924	\$ 24,076.006	\$ (42.918)
Excise taxes	1,990.000	1,990.000	1,982,623	(7.377)
Licenses and permits	770.000	770.000	809,524	39.524
Penalties and interest	110.000	110.000	153,727	43.727
Investment interest	150.000	150.000	64,563	(85.437)
Charges for services	2,242.000	2,242.000	2,291,106	49,106
Special assessments	120.000	120.000	250,167	130,167
Fees and fines	50.000	50.000	56,250	6,250
Departmental and other	264.053	264.053	585,562	321,509
Intergovernmental	1,864.795	1,864,795	1,873,964	9,169
Total revenues	31,679,772	31,679,772	32,143,492	463,720
Expenditures				
General government	4,111,593	2,742,178	2,676,660	65,518
Public safety	4,684,557	4,564,264	4,564,263	1
Education	10,058,679	10,095,214	10,083,145	12,069
Public works	5,310,918	4,764,252	4,640,128	124,124
Community planning and development	838,224	777,133	777,133	
Health & human services	970,557	636,265	636,265	
Culture and recreation	949,276	938,723	936,934	1,789
Coastal resources	1,448,601	1,161,784	1,161,769	15
Employee benefits	3,649,041	3,635,534	3,416,612	218,922
State and county assessments	894,104	894,104	926,279	(32,175)
Debt service	5,118,209	5,118,209	5,015,613	102,596
Total expenditures	38,033,759	35,327,660	34,834,801	492,859
Revenues over (under) expenditures	(6,353,987)	(3,647,888)	(2,691,309)	956,579
Other financing sources (uses)				
Transfers in from other funds	1,937,224	1,942,347	1,942,347	
Transfers out to other funds	(434,078)	(434,078)	(434,078)	
Total other financing sources	1,503,146	1,508,269	1,508,269	
Revenues and other financing sources over (under) expenditures and other financing uses	(4,850,841)	(2,139,619)	(1,183,040)	\$ 956,579
Fund balance, beginning of year			7,145,030	
Fund balances, end of year			\$ 5,961,990	
Other budget items				
Free cash appropriations	1,606,285	1,606,285		
Carryover encumbrances	3,244,556	533,334		
Total other budget items	4,850,841	2,139,619		
Net budget	\$	\$		

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

TOWN OF CHATHAM, MASSACHUSETTS

Required Supplementary Information

June 30, 2010

Budgetary basis of accounting

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

The budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund and enterprise fund functions are budgeted; the town does not have legally adopted annual budgets for its special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column of the Statements of Revenues, Expenditures and Changes in Fund Balance – Budgetary Basis, are presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis is that all budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2010, is presented below:

	Revenues	Expenditures	Other Financing Sources (Uses), Net
As reported on a budgetary basis	\$ 32,154,114	\$ 34,853,273	\$ 1,508,269
Adjustment of property tax revenues to modified accrual basis	(72,768)		
State funded teacher's pension	1,959,414	1,959,414	
Expenditure timing differences		(60,625)	
Adjustment for waste wood reclamation fund debt service payments		(210,738)	(210,738)
Adjustment for budgeted allocation of water fund overhead costs		(349,219)	(349,219)
As reported on a GAAP basis	<u>\$ 34,040,760</u>	<u>\$ 36,192,105</u>	<u>\$ 948,312</u>