

**TOWN OF CHATHAM, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDING JUNE 30, 2012**

TOWN OF CHATHAM, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDING JUNE 30, 2012

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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, 2012, 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, 2012, 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 May 20, 2013 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.

MLBCPA, LLP

May 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF CHATHAM, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2012

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, 2012 and 2011. 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

Management's Discussion and Analysis

June 30, 2012

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, 2012

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 2012	FY 2011	
	Governmental/ Business-type Activities	Governmental/ Business-type Activities	Percent Change
Current assets	\$ 24,278,329	\$ 23,724,329	2.34%
Capital assets	165,827,660	153,220,628	8.23%
Total assets	190,105,989	176,944,957	7.44%
Current liabilities	12,410,110	61,521,224	-79.83%
Long-term liabilities	93,061,410	41,983,334	121.66%
Total liabilities	105,471,520	103,504,558	1.90%
Net assets:			
Invested in capital assets, net of related debt	73,383,521	61,640,100	19.05%
Restricted	3,905,710	2,867,846	36.19%
Unrestricted	7,345,238	8,932,453	-17.77%
Total net assets	\$ 84,634,469	\$ 73,440,399	15.24%

The Town's net assets exceeded its liabilities at June 30, 2012 and 2011 by \$84,634,469 and \$73,440,399 (presented as net assets), respectively. Included in these amounts are unrestricted net assets of \$7,345,238 and \$8,932,453, 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 \$73,383,521 and \$61,640,100 at June 30, 2012 and 2011, 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, 2012

Statement of Activities: The Town's total net assets (primary government) increased by \$11,194,070 and decreased by \$1,033,996 during fiscal year 2012 and 2011, respectively.

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

	Governmental Activities		
	June 30, 2012	June 30, 2011	% Change
Revenues:			
Program Revenues:			
Charges for services	\$ 3,936,992	\$ 4,027,075	-2.24%
Operating grants and contributions	5,750,381	6,195,523	-7.18%
Capital grants and contributions	13,275,116	334,096	3873.44%
Total program revenues	22,962,489	10,556,694	117.52%
General Revenues:			
Property taxes levied	27,431,990	26,195,971	4.72%
Excise taxes	2,382,754	2,119,191	12.44%
Penalties and interest on taxes	192,331	128,154	50.08%
Grants and contributions not restricted	129,241	186,638	-30.75%
Loss on disposal of capital assets	(82,673)	(44,477)	85.88%
Investment income	112,100	161,843	-30.74%
Miscellaneous	322,990	579,681	-44.28%
Transfers	(600,050)	(605,488)	-0.90%
Contributed capital	-	2,000	100.00%
Total general revenues	29,888,683	28,723,513	4.06%
Total Revenues	52,851,172	39,280,207	34.55%
Expenses:			
General government	2,913,175	3,386,605	-13.98%
Public safety	5,467,839	5,176,832	5.62%
Education	660,131	12,376,382	-94.67%
Public works	13,255,136	5,066,629	161.62%
Community planning and development	5,680,758	741,775	665.83%
Health and human services	608,368	699,763	-13.06%
Culture and recreation	1,264,056	1,400,719	-9.76%
Coastal resources	1,209,536	1,636,797	-26.10%
Interest on long term debt	1,835,825	1,462,174	25.55%
Employee fringe benefits	7,835,435	7,478,436	4.77%
State and county charges	1,222,810	991,296	23.35%
Total Expenses	41,953,069	40,417,408	3.80%
Change in net assets	10,898,103	(1,137,201)	-1058.33%
Net assets – beginning of year	58,660,487	59,797,688	-1.90%
Net assets – end of year	\$ 69,558,590	\$ 58,660,487	18.58%

TOWN OF CHATHAM, MASSACHUSETTS
Management's Discussion and Analysis
June 30, 2012

Total Revenues

Total governmental activities revenue for 2012 and 2011 for the Town are comprised of general revenue of \$29,888,683 and \$28,723,513, charges for services of \$3,936,992 and \$4,027,075, operating grants and contributions of \$5,750,381 and \$6,195,523, capital grant and contribution revenue of \$13,275,116 and \$334,096 respectively. The significant increase in the capital grant and contribution revenue relates to the increase in USDA Wastewater Treatment Facility construction grants received in fiscal year 2012.

General Revenues

Real Estate revenues are the Town's largest revenue source at \$27,431,990 and \$26,195,971, representing 91.78% and 91.20% of general revenues, respectively. The assessed tax valuation base is \$5,870,093,810, up from \$5,852,076,150 assessed in the prior year, showing a 0.3% increase due to increasing property values.

Program Revenues

Governmental charges for services are \$3,936,992 and \$4,027,075 representing a variety of departmental revenues. Of these amounts, the Public Works portion of \$1,229,285 and \$1,378,781, respectively, includes charges for services for the water, landfill and sewer.

Governmental operating grants and contributions of \$5,750,381 and \$6,195,523 represent several federal and state grants restricted to specific grant conditions. This accounts for approximately 10.88% and 15.77% of the total Town governmental activities revenues.

Expenses

For fiscal year ended June 30, 2012 and 2011, expenses for governmental activities totaled \$41,953,069 and \$40,417,408. Education continues to be one of the Town's highest expenditures representing \$13,255,136 and \$12,376,382 or 31.60% and 30.62% of the total governmental expenses.

TOWN OF CHATHAM, MASSACHUSETTS
Management's Discussion and Analysis
June 30, 2012

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

	Business-Type Activities		% Change
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	
Revenues:			
Program Revenues:			
Charges for services	\$ 2,466,288	\$ 2,485,152	-0.76%
Fines and forfeitures	20,822	24,158	-13.81%
Total operating revenues	2,487,110	2,509,310	-0.88%
Expenses:			
Salaries, wages, and employee benefits	457,618	525,472	-12.91%
Expenses	1,477,602	1,548,308	-4.57%
Depreciation	773,273	767,698	0.73%
Total expenses	2,708,493	2,841,478	-4.68%
Total operating income	(221,383)	(332,168)	-33.35%
Non operating revenues (expenses)			
Debt service	(349,025)	(425,323)	-17.94%
Water tower lease	266,325	255,208	4.36%
Transfers in	600,050	605,488	-0.90%
Total non operating revenue (expenses), net	517,350	435,373	18.83%
Change in net assets	295,967	103,205	186.78%
Net assets – beginning of year	14,779,912	14,676,707	0.70%
Net assets – end of year	\$ 15,075,879	\$ 14,779,912	2.00%

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 financing requirements. Fund balance for governmental funds is reported in a classification hierarchy which is based upon the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. These classifications are non-spendable, restricted, committed, assigned and unassigned fund balance.

In particular, *unassigned fund balance* represents the residual fund balance which has not been restricted, committed, or assigned to a purpose within that fund. The general fund is the only fund which should report a positive unassigned fund balance amount. Any negative unassigned fund balance represents expenditures incurred for specific purposes which exceeded the amounts restricted, committed, or assigned for that purpose.

TOWN OF CHATHAM, MASSACHUSETTS
Management's Discussion and Analysis
June 30, 2012

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$8,908,932 an increase of approximately \$50,691,000 from the prior year. The governmental funds' combined ending fund balances were reported in the following classifications: nonspendable fund balance of \$660,991, restricted fund balance of \$4,298,550, committed fund balance of \$3,503,534; assigned fund balance of \$108,152 and unassigned fund balance of \$337,705.

The general fund is the chief operating fund. At the end of the current fiscal year, the general fund reported aggregate fund balance of \$7.2 million, an increase of \$1.0 million from the previous year. Of this amount \$1,280,992 or 17.8% represents restricted fund balance. Committed fund balance of \$1,754,380 and assigned fund balance of \$108,152 represent 24.3% and 1.5% of total general fund balance respectively. Unassigned fund balance of \$4,068,591 represents 56.4% of total general fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures and revenues. Total unassigned fund balance represents approximately 11.2% and 11.2%, respectively, of total general fund expenditures and revenues, while total General fund balance represents 19.8% and 19.8%, respectively, of the same amounts.

General Fund Budgetary Highlights

The difference between the original expenditure budget of \$37,359,989 and the final expenditure budget of \$36,124,956 is due to \$1.8 million in encumbrances and articles being carried over to the subsequent fiscal year as well as \$0.6 million appropriated at a special town meeting during the year.

Capital Asset and Debt Administration

Capital Assets: The Town's investment in capital assets for governmental activities as of June 30, 2012 and 2011, amounts to \$146,052,260 and \$132,798,857, which is net of accumulated depreciation of \$39,728,088 and \$37,264,350. 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, 2012 and 2011, amounts to \$19,775,400 and \$20,421,771, which is net of accumulated depreciation of \$18,637,886 and \$17,864,613. 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):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 29,685	\$ 29,685	\$ 3,163	\$ 3,163
Construction in progress	69,276	53,305		239
Buildings and improvements	28,839	31,049	919	961
Improvements non-buildings	7,082	7,198	622	418
Equipment, machinery & vehicles	3,335	3,290	27	31
Infrastructure	<u>7,835</u>	<u>8,272</u>	<u>15,044</u>	<u>15,610</u>
	<u>\$ 146,052</u>	<u>\$ 132,799</u>	<u>\$ 19,775</u>	<u>\$ 20,422</u>

TOWN OF CHATHAM, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2012

Major capital asset events for governmental and business-type activities during 2012 include the following:

- Highway and sidewalk improvements
- Construction costs on police annex
- Construction costs on wastewater treatment facility
- Vehicle additions (police, parks & recreation, fire, sewer, conservation)
- Well field

Major capital asset events for governmental and business-type activities during 2011 include the following:

- Highway and sidewalk improvements
- Construction costs on police annex
- Construction costs on wastewater treatment facility
- Chemical feed building construction
- Purchase of land

Long-term debt: At June 30, 2012, the Town had total bonded debt outstanding of \$79,204,212 and \$7,313,746 for the governmental and business-type activities, respectively, which is an increase of 163.5% for the governmental and an increase of 10.4% for the business-type activities from prior year. All debt is a general obligation of the Town.

In addition the Town had short term notes of \$3,691,276 at June 30, 2012 and \$53,853,963 June 30, 2011. The short term interest rate was 0.14% and 0.25% - 1.50%, 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 expects to increased its property tax levy, which includes new growth.

The operating budget increased 13.5% over the FY 12 budget. The increase is mostly attributable to general budget inflation. The capital budget of \$1,074,300 is an increase of 21.0% from FY 12.

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, 2012

	Primary Government			Component Unit
	Governmental	Business-type	Total	Eldredge Public
<u>ASSETS</u>	Activities	Activities		Library
Cash and cash equivalents	\$ 7,369,773	\$ 1,946,043	\$ 9,315,816	\$ 71,904
Restricted cash and cash equivalents				
Investments	4,853,090		4,853,090	4,008,060
Receivables	9,209,098	808,676	10,017,774	3,150
Deferred Charges	84,729	6,920	91,649	482
Capital assets, net of accumulated depreciation	146,052,260	19,775,400	165,827,660	6,813
Total assets	<u>\$ 167,568,950</u>	<u>\$ 22,537,039</u>	<u>\$190,105,989</u>	<u>\$ 4,090,409</u>
<u>LIABILITIES</u>				
Warrants payable	\$ 1,701,060	\$ 43,130	\$ 1,744,190	\$ 10,256
Accrued interest	431,676	70,784	502,460	
Notes payable	3,691,276		3,691,276	
Provision for refund of paid taxes	331,435		331,435	
Agency and other payables	201,296		201,296	25,772
Noncurrent liabilities				
Due within one year	5,123,777	815,676	5,939,453	
Due in more than one year	86,529,840	6,531,570	93,061,410	23,733
Total liabilities	<u>98,010,360</u>	<u>7,461,160</u>	<u>105,471,520</u>	<u>59,761</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	60,953,308	12,430,213	73,383,521	
Restricted	3,905,710		3,905,710	919,166
Unrestricted	4,699,572	2,645,666	7,345,238	3,111,482
Total net assets	<u>69,558,590</u>	<u>15,075,879</u>	<u>84,634,469</u>	<u>4,030,648</u>
Total liabilities and net assets	<u>\$ 167,568,950</u>	<u>\$ 22,537,039</u>	<u>\$190,105,989</u>	<u>\$ 4,090,409</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Eldredge Public Library
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental activities								
General government	\$ 2,913,175	\$ 262,918	\$ 493,309	\$	\$ (2,156,948)	\$	\$ (2,156,948)	\$
Public safety	5,467,839	968,169	57,421		(4,442,249)		(4,442,249)	
Community planning and development	660,131				(660,131)		(660,131)	
Education	13,255,136	132,984	2,912,575		(10,209,577)		(10,209,577)	
Public works	5,680,758	1,229,285		13,275,116	8,823,643		8,823,643	
Health and human services	608,368	74,754	30,586		(503,028)		(503,028)	
Culture and recreation	1,264,056	172,654	26,428		(1,064,974)		(1,064,974)	
Coastal resources	1,209,536	1,096,228	70,866		(42,442)		(42,442)	
Interest on long-term debt	1,835,825		8,021		(1,827,804)		(1,827,804)	
Employee fringe benefits	7,835,435		2,151,175		(5,684,260)		(5,684,260)	
State and county charges	1,222,810				(1,222,810)		(1,222,810)	
Total governmental activities	<u>41,953,069</u>	<u>3,936,992</u>	<u>5,750,381</u>	<u>13,275,116</u>	<u>(18,990,580)</u>		<u>(18,990,580)</u>	
Business-type activities								
Water fund	2,996,076	2,718,648				(277,428)	(277,428)	
Wood Waste Reclamation Center	61,441	34,786				(26,655)	(26,655)	
Total business-type	<u>3,057,517</u>	<u>2,753,434</u>				<u>(304,083)</u>	<u>(304,083)</u>	
Total primary government	<u>\$ 45,010,586</u>	<u>\$ 6,690,426</u>	<u>\$ 5,750,381</u>	<u>\$ 13,275,116</u>	<u>(18,990,580)</u>	<u>(304,083)</u>	<u>(19,294,663)</u>	
Component Unit								
Eldredge Public Library	<u>\$ 908,923</u>	<u>\$</u>	<u>\$ 736,612</u>	<u>\$</u>				<u>(172,311)</u>
General revenues								
Property taxes, net of allowances for uncollectibles					27,431,990		27,431,990	
Excise taxes					2,382,754		2,382,754	
Penalties and interest on taxes					192,331		192,331	
Grants and contributions not restricted to specific programs					129,241		129,241	
Investment income					112,100		112,100	(82,104)
Loss on disposal of assets					(82,673)		(82,673)	
Miscellaneous					322,990		322,990	14,818
Transfers					(600,050)	600,050		
Total general revenues, special items and transfers					<u>29,888,683</u>	<u>600,050</u>	<u>30,488,733</u>	<u>(67,286)</u>
Change in net assets					10,898,103	295,967	11,194,070	(239,597)
Net assets - beginning of year					<u>58,660,487</u>	<u>14,779,912</u>	<u>73,440,399</u>	<u>4,270,245</u>
Net assets - end of year					<u>\$ 69,558,590</u>	<u>\$ 15,075,879</u>	<u>\$ 84,634,469</u>	<u>\$ 4,030,648</u>

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

TOWN OF CHATHAM, MASSACHUSETTS
 Balance Sheet - Governmental Funds
 June 30, 2012

	<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	\$ 6,765,483	\$ (2,464,965)	\$ 33,835	\$ 3,035,420	\$ 7,369,773
Investments	1,847,008			3,006,082	4,853,090
Receivables, net	6,867,218	2,431,585		249,013	9,547,816
Total assets	<u>\$15,479,709</u>	<u>\$ (33,380)</u>	<u>\$ 33,835</u>	<u>\$ 6,290,515</u>	<u>\$ 21,770,679</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 1,047,196			\$ 653,864	\$ 1,701,060
Amounts withheld from employees	105,057				105,057
Notes payable		3,691,276			3,691,276
Provision for refund of paid taxes	331,435				331,435
Deferred revenue	6,687,667			249,013	6,936,680
Agency and other payables	96,239				96,239
Total liabilities	<u>8,267,594</u>	<u>3,691,276</u>		<u>902,877</u>	<u>12,861,747</u>
<u>FUND BALANCES</u>					
Nonspendable				660,991	660,991
Restricted	1,280,992		33,835	2,983,723	4,298,550
Committed	1,754,380			1,749,154	3,503,534
Assigned	108,152				108,152
Unassigned	4,068,591	(3,724,656)		(6,230)	337,705
Total fund balances	<u>7,212,115</u>	<u>(3,724,656)</u>	<u>33,835</u>	<u>5,387,638</u>	<u>8,908,932</u>
Total liabilities and fund balances	<u>\$15,479,709</u>	<u>\$ (33,380)</u>	<u>\$ 33,835</u>	<u>\$ 6,290,515</u>	<u>\$ 21,770,679</u>

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

Total fund balances of governmental funds	\$ 8,908,932
Capital assets used in governmental activities are not financial resources and not reported in funds.	146,052,260
Other long-term assets are not available to pay for current-period expenditures and are deferred in funds.	6,936,680
Reporting of assets on a full accrual basis requires an estimate for uncollectible accounts.	(338,718)
Long-term liabilities, net of deferred charges, of are not due and payable in the current period and are not included in funds.	(91,568,888)
Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued.	<u>(431,676)</u>
Net assets of governmental activities	<u>\$ 69,558,590</u>

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

TOWN OF CHATHAM, MASSACHUSETTS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Wastewater Facility	Police Annex	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 25,802,184	\$	\$	\$ 1,446,618	\$ 27,248,802
Excise taxes	2,365,762				2,365,762
Licenses and permits	885,001			300,479	1,185,480
Penalties and interest	189,998			2,332	192,330
Investment income	51,151			60,950	112,101
Charges for services	2,262,736			260,928	2,523,664
Special assessments	140,005				140,005
Fees and fines	61,104				61,104
Contributions				259,260	259,260
Departmental and other	502,582			93,650	596,232
Intergovernmental	4,076,771	13,102,725		2,370,497	19,549,993
Total revenues	<u>36,337,294</u>	<u>13,102,725</u>		<u>4,794,714</u>	<u>54,234,733</u>
Expenditures					
Current:					
General government	2,345,246			765,016	3,110,262
Public safety	5,069,861		570,753	64,455	5,705,069
Education	9,923,472			2,903,733	12,827,205
Public works	4,257,922	15,335,745		210,285	19,803,952
Community development	655,879				655,879
Human services	560,157			27,669	587,826
Culture and recreation	905,842			78,107	983,949
Coastal resources	829,307			152,044	981,351
Employee benefits	5,647,786				5,647,786
State and county assessments	1,222,810				1,222,810
Debt Service:					
Principal	3,060,404				3,060,404
Interest and other charges	1,932,935				1,932,935
Total expenditures	<u>36,411,621</u>	<u>15,335,745</u>	<u>570,753</u>	<u>4,201,309</u>	<u>56,519,428</u>
Revenues over (under) expenditures	(74,327)	(2,233,020)	(570,753)	593,405	(2,284,695)
Other financing sources (uses)					
Issuance of long term debt		34,100,500	16,399,383	1,793,750	52,293,633
Proceeds of bond premium	1,282,245				1,282,245
Transfers in from other funds	1,072,519	189,287	416,668	114,024	1,792,498
Transfers out to other funds	(1,320,029)			(1,072,519)	(2,392,548)
Total other financing sources and (uses)	<u>1,034,735</u>	<u>34,289,787</u>	<u>16,816,051</u>	<u>835,255</u>	<u>52,975,828</u>
Revenues and other financing sources over (under) expenditures and other financing uses	960,408	32,056,767	16,245,298	1,428,660	50,691,133
Fund balances, beginning of year	6,251,707	(35,781,423)	(16,211,463)	3,958,978	(41,782,201)
Fund balances, end of year	<u>\$ 7,212,115</u>	<u>\$ (3,724,656)</u>	<u>\$ 33,835</u>	<u>\$ 5,387,638</u>	<u>\$ 8,908,932</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, 2012

Revenues and other financing sources over expenditures and other financing uses	\$ 50,691,133
<p>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.</p>	
Capital outlays during the fiscal year	16,076,198
Depreciation recorded for the fiscal year	(2,740,121)
Loss on disposal of capital assets	(82,673)
<p>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.</p>	
Net change in deferred revenue	(687,983)
Net change in allowance for uncollectible accounts	(12,852)
<p>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.</p>	
Proceeds from long-term debt	(52,293,633)
Principal payments on long-term debt	3,153,285
Proceeds from bond premiums	(1,282,245)
Amortization from bond premiums	113,144
Amortization of bond issuance costs	(14,121)
<p>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.</p>	
Net change in accrued interest expense	(94,798)
<p>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:</p>	
Other post employment benefits	(2,187,649)
Compensated absences	235,418
Landfill closure liability	<u>25,000</u>
Change in net assets of governmental activities	<u>\$ 10,898,103</u>

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

TOWN OF CHATHAM, MASSACHUSETTS

Statement of Net Assets - Proprietary Funds

June 30, 2012

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Facility	Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,813,522	\$ 132,521	\$ 1,946,043
Receivables, net of allowances for uncollectibles	808,676		808,676
Deferred Charges	6,920		6,920
Capital assets, net of accumulated depreciation	<u>17,550,400</u>	<u>2,225,000</u>	<u>19,775,400</u>
Total assets	<u>\$ 20,179,518</u>	<u>\$ 2,357,521</u>	<u>\$ 22,537,039</u>
<u>LIABILITIES</u>			
Warrants payable	\$ 43,130	\$	\$ 43,130
Accrued interest payable	65,137	5,647	70,784
Noncurrent liabilities:			
Due within one year	665,676	150,000	815,676
Due in more than one year	<u>5,506,570</u>	<u>1,025,000</u>	<u>6,531,570</u>
Total liabilities	6,280,513	1,180,647	7,461,160
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	11,380,213	1,050,000	12,430,213
Unrestricted	<u>2,518,792</u>	<u>126,874</u>	<u>2,645,666</u>
Total net assets	<u>13,899,005</u>	<u>1,176,874</u>	<u>15,075,879</u>
Total liabilities and net assets	<u>\$ 20,179,518</u>	<u>\$ 2,357,521</u>	<u>\$ 22,537,039</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, 2012

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Facility	Totals
Operating revenues			
Charges for services, departmental and other	\$ 2,431,502	\$ 34,786	\$ 2,466,288
Fines and forfeitures	20,822		20,822
Total operating revenues	<u>2,452,324</u>	<u>34,786</u>	<u>2,487,110</u>
Operating expenses			
Salaries and wages	457,618		457,618
Operating expenses	1,465,602	12,000	1,477,602
Depreciation	773,273		773,273
Total operating expenses	<u>2,696,493</u>	<u>12,000</u>	<u>2,708,493</u>
Operating income (loss)	(244,169)	22,786	(221,383)
Non operating revenues (expenses)			
Water tower lease	266,325		266,325
Interest expense	(299,584)	(49,441)	(349,025)
Total non-operating revenue (expenses), net	<u>(33,259)</u>	<u>(49,441)</u>	<u>(82,700)</u>
Transfers			
Transfers in from other funds	400,000	200,050	600,050
Total transfers	<u>400,000</u>	<u>200,050</u>	<u>600,050</u>
Change in net assets	122,572	173,395	295,967
Net assets at beginning of year	13,776,433	1,003,479	14,779,912
Net assets at end of year	<u>\$ 13,899,005</u>	<u>\$ 1,176,874</u>	<u>\$ 15,075,879</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, 2012

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Facility	Total Enterprise
Cash flows from operating activities			
Receipts from customers and users	\$ 2,325,088	\$ 34,786	\$ 2,359,874
Payments to vendors	(1,461,472)	(12,000)	(1,473,472)
Payments to employees, including fringe benefits	(477,919)		(477,919)
Net cash provided by (used for) operating activities	<u>385,697</u>	<u>22,786</u>	<u>408,483</u>
Cash flows from noncapital financing activities			
Transfer in from General Fund	400,000	200,050	600,050
Water tower lease	266,325		266,325
Net cash used for capital and related financing activities	<u>666,325</u>	<u>200,050</u>	<u>866,375</u>
Cash flows from capital and related financing activities			
Payments of long-term debt principal	(671,010)	(150,000)	(821,010)
Proceeds from long-term debt	1,509,722		1,509,722
Paydown of bond anticipation notes	(1,400,000)		(1,400,000)
Payments of interest costs	(313,539)	(50,050)	(363,589)
Net cash provided by (used for) capital and related financing activities	<u>(874,827)</u>	<u>(200,050)</u>	<u>(1,074,877)</u>
Cash flows from investing activities			
Purchase of capital assets	<u>(126,902)</u>		<u>(126,902)</u>
Net cash (used for) investing activities	<u>(126,902)</u>		<u>(126,902)</u>
Net change in cash and cash equivalents	50,293	22,786	73,079
Balances at the beginning of year	1,763,229	109,735	1,872,964
Balances at the end of year	<u>\$ 1,813,522</u>	<u>\$ 132,521</u>	<u>\$ 1,946,043</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ (244,169)	\$ 22,786	\$ (221,383)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	773,273		773,273
Changes in assets and liabilities:			
User fees receivable, net of allowance for collectibles	(127,235)		(127,235)
Warrants payable	4,129		4,129
Accrued compensated absences	(20,301)		(20,301)
Total adjustments	<u>629,866</u>		<u>629,866</u>
Net cash provided by (used for) operating activities	<u>\$ 385,697</u>	<u>\$ 22,786</u>	<u>\$ 408,483</u>

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

TOWN OF CHATHAM, MASSACHUSETTS
Statement of Net Assets - Fiduciary Funds
June 30, 2012

	Private Purpose Trust Fund	Agency Accounts
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,991	\$ 725,582
Investments		23,271
Receivables, net of allowance for uncollectibles		55,041
Total assets	\$ 2,991	\$ 803,894
<u>LIABILITIES</u>		
Warrants payable	\$	\$ 14,599
Accounts payable and other current liabilities		789,295
Total liabilities		803,894
<u>NET ASSETS</u>		
Held in trust	2,991	
Total liabilities and net assets	\$ 2,991	\$ 803,894

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, 2012

	Private Purpose Trust Funds
Additions	
Interest and dividends	\$ 46
	<hr/>
Total additions	46
	<hr/>
Change in net assets	46
Net assets at beginning of year	2,945
	<hr/>
Net assets at end of year	\$ 2,991
	<hr/> <hr/>

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, 2012

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	\$ 5,857,879
Cape Cod Regional Technical High School Route 124 Harwich, MA 02645	To provide vocational education to students 9-12 grade	\$ 287,652
Cape Cod Regional Transit Authority 585 Main Street Dennis, MA 02638	To provide regional transportation services	\$ 16,926
District Department of Veteran Services PO Box 429 Hyannis, MA 02601	To provide services to veterans	\$ 36,460
Pleasant Bay Resource Management Alliance P.O. Box 1584 Harwich, MA 02645	To protect the vast natural resources of Pleasant Bay	\$ 32,774

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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, 2012

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 primary 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 restricted or committed to expenditures for specified purposes other than debt service and capital projects.
- Debt service funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Currently, the Town does not utilize a debt service fund.
- Capital projects funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays.
- Permanent funds are used to account for resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs – that is for the benefit of the government or its citizens.

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, 2012

- 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 major funds for the current fiscal year are the General Fund, the Wastewater Treatment Facility capital project fund, and the Police Annex capital project fund. 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, 2012

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, 2012

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 government-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, 2012

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 based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance can be classified in the following components:

- Nonspendable fund balance – consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts upon which constraints have been placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consist of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of Town Meeting.
- Assigned fund balance – consist of amounts that are constrained by the Town’s intent to be used for a specific purpose. Intent is expressed by either the governing body, or the officials directly responsible for departmental appropriations
- Unassigned fund balance – represents the residual classification for the general fund. It represents amounts that have not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds were designated for one purpose at the time of their creation. Therefore, any expenditure made from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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.

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.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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 nonspendable, restricted, committed, or assigned for specific purposes. The residual is reported as unassigned fund balance. As of June 30, 2012, the classification of the Town's fund balances can be detailed as follows:

	<u>General Fund</u>	<u>Wastewater Facility</u>	<u>Police Annex</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Education	\$	\$	\$	\$ 254,710	\$ 254,710
Public Works				406,281	406,281
subtotal				660,991	660,991
Restricted:					
General Government				1,693,440	1,693,440
Public Safety			33,835	145,342	179,177
Education				224,850	224,850
Public Works				400,080	400,080
Community Development				10,173	10,173
Human Services				136,620	136,620
Culture & Recreation				92,702	92,702
Coastal Resources				280,516	280,516
Debt Service	1,280,992				1,280,992
subtotal	1,280,992		33,835	2,983,723	4,298,550
Committed:					
General Government	506,893			1,419,459	1,926,352
Public Safety	40,578				40,578
Public Works	707,395				707,395
Community Development	50,571				50,571
Human Services	160,671				160,671
Culture & Recreation				7,208	7,208
Coastal Resources	288,272			322,487	610,759
subtotal	1,754,380			1,749,154	3,503,534
Assigned:					
General Government	9,773				9,773
Public Safety	3,436				3,436
Education	11,346				11,346
Public Works	30,392				30,392
Community Development	1,499				1,499
Human Services	118				118
Culture & Recreation	1,550				1,550
Coastal Resources	38				38
To fund stabilization fund	50,000				50,000
subtotal	108,152				108,152
Unassigned	4,068,591	(3,724,656)		(6,230)	337,705
Total	<u>\$ 7,212,115</u>	<u>\$ (3,724,656)</u>	<u>\$ 33,835</u>	<u>\$ 5,387,638</u>	<u>\$ 8,908,932</u>

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

Pursuant to MGL, the Town maintains a stabilization fund, which maintains funds set aside by Town Meeting vote for further appropriation, or in accordance with MGL for the Board of Selectmen to perform interfund borrowings during the year. Since this fund is not supported by specific revenue sources, it is included with the general fund unassigned fund balance. As of June 30, 2012, the Town maintained a balance of \$1,705,841 in its stabilization fund.

In addition, the general fund unassigned fund balance included a \$407 of abatements not provided for. The wastewater facility and other nonmajor governmental funds report deficits related to bond anticipation note borrowings for the capital projects and reimbursement grant funding not yet received.

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	\$ 445,230
Special Revenue Fund balances:	
Community Preservation Act Fund	1,560,179
Other special revenue funds	1,087,191
Permanent Funds:	
Expendable	152,119
Non-expendable	660,991
Total restricted net assets	<u>\$ 3,905,710</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.

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, 2012 deposits totaled \$12,010,389 and had a carrying amount of \$10,044,389. Of the deposit amount, \$798,771 was exposed to custodial credit risk at June 30, 2012 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, 2012 the carrying amount of deposits for the Component Unit totaled \$71,904. The total bank balance was covered by Federal Depository Insurance.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

The Town's investments are as follows:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Rating</u>	<u>Maturity</u>			
			<u>N/A</u>	<u>12 months or less</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>
U.S. treasury notes	\$ 1,917,239	Aaa	\$	\$	\$ 1,817,244	\$ 99,995
Common Stock	287,697	N/A	287,697			
MMDT	1,409,712	N/A	1,409,712			
Money Market Securities	532,876	N/A	532,876			
Certificates of Deposit	402,204	N/A		100,202	302,002	
Mutual Funds	163,309	N/A	163,309			
Corporate Bonds	163,324	A1		103,377	59,947	
Total governmental activities	<u>\$ 4,876,361</u>		<u>\$ 2,393,594</u>	<u>\$ 203,579</u>	<u>\$ 2,179,193</u>	<u>\$ 99,995</u>

The Component Unit's investments are as follows:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Rating</u>	<u>Maturity</u>
	Cash held for investment	\$ 117,771	N/A
Mutual Funds	3,890,289	N/A	N/A
Total component unit	<u>\$ 4,008,060</u>		

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.

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.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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.

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:

<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	\$ 715,549	\$ (111,161)	\$ 604,388	\$ 572,541
Tax liens, deferrals and foreclosures	763,884		763,884	727,341
Motor vehicle and other excise	255,688	(182,900)	72,788	255,688
Departmental and other	296,336	(44,657)	251,679	296,336
Betterments and special assessments	429,317		429,317	429,317
Intergovernmental:				
School Building Assistance	4,434,548		4,434,548	4,434,548
Community Preservation Act Match	220,909		220,909	220,909
MWPAT Interim Note Drawdown Outstanding	2,431,585		2,431,585	
Total on governmental fund basis	<u>9,547,816</u>			<u>\$ 6,936,680</u>
Totals on entity-wide basis	<u>\$ 9,547,816</u>	<u>\$ (338,718)</u>	<u>\$ 9,209,098</u>	

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 and a \$2,256,265 interim loan (Note 9) issued to the Town on April 15, 2012 for the wastewater treatment facility project. The funds for this interim loans will be disbursed to the Town as reimbursements for the project. Through the current fiscal year the Town received \$12,068,180, leaving \$2,431,585 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	\$ 210,221	\$	\$ 210,221
Unbilled water rates	623,244		623,244
Allowance for uncollectible		(24,789)	(24,789)
Totals	<u>\$ 833,465</u>	<u>\$ (24,789)</u>	<u>\$ 808,676</u>

TOWN OF CHATHAM, MASSACHUSETTS
Notes to Financial Statements
June 30, 2012

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2012, 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	\$ 29,684,669	\$	\$	\$ 29,684,669
Construction in Progress	54,305,269	14,983,281	(12,955)	69,275,595
Sub-total	83,989,938	14,983,281	(12,955)	98,960,264
Capital assets being depreciated:				
Buildings and related improvements	46,645,744			46,645,744
Improvements other than buildings	13,448,435	410,759		13,859,194
Equipment, machinery & vehicles	7,064,726	695,113	(359,057)	7,400,782
Infrastructure	18,914,364			18,914,364
Sub-total	86,073,269	1,105,872	(359,057)	86,820,084
Less accumulated depreciation:				
Buildings and related improvements	16,596,416	1,210,750		17,807,166
Improvements other than buildings	6,250,054	527,219		6,777,273
Equipment, machinery & vehicles	3,775,391	566,833	(276,384)	4,065,840
Infrastructure	10,642,489	435,320		11,077,809
Sub-total	37,264,350	2,740,122	(276,384)	39,728,088
Governmental capital assets, net	<u>\$ 132,798,857</u>	<u>\$ 13,349,031</u>	<u>\$ (95,628)</u>	<u>\$ 146,052,260</u>
 <u>Business-type activities:</u>				
<u>Water Activities</u>				
Capital assets not being depreciated:				
Land	\$ 938,433	\$	\$	\$ 938,433
Construction in progress	239,126		(239,126)	
Sub-total	1,177,559		(239,126)	938,433
Capital assets being depreciated:				
Buildings and related improvements	1,144,813			1,144,813
Improvements other than buildings	448,297	239,126		687,423
Equipment, machinery & vehicles	53,862			53,862
Infrastructure	33,236,853	126,902		33,363,755
Sub-total	34,883,825	366,028		35,249,853
Less accumulated depreciation:				
Buildings and related improvements	184,739	41,366		226,105
Improvements other than buildings	29,886	34,669		64,555
Equipment, machinery & vehicles	22,746	3,894		26,640
Infrastructure	17,627,242	693,344		18,320,586
Sub-total	17,864,613	773,273		18,637,886
Water activities capital assets, net	18,196,771	(407,245)	(239,126)	17,550,400
 <u>Wood Waste Activities</u>				
Land	2,225,000			2,225,000
Wood Waste activities capital assets, net	2,225,000			2,225,000
Business-Type capital assets, net	<u>\$ 20,421,771</u>	<u>\$ (407,245)</u>	<u>\$ (239,126)</u>	<u>\$ 19,775,400</u>
 <u>Component unit activities:</u>				
Capital assets being depreciated:				
Equipment & Furniture	\$ 330,643	\$ 5,827	\$ -	\$ 336,470
Less accumulated depreciation:				
Equipment & Furniture	324,688	4,969		329,657
Component unit capital assets, net	<u>\$ 5,955</u>	<u>\$ 858</u>	<u>\$ -</u>	<u>\$ 6,813</u>

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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

Governmental activities:	
General government	\$ 175,974
Public safety	219,065
Education	619,083
Public works	1,042,790
Health and human services	21,476
Culture and recreation	416,175
Coastal resources	245,558
Total depreciation expense – governmental activities	\$ 2,740,121
Business-type activities:	
Water/Total	\$ 773,273
Component unit activities:	
Eldredge Public Library/Total	\$ 4,969

Note 7. Interfund balances and activity

Interfund transfers for the fiscal year ended June 30, 2012, consisted of the following:

	<u>General Fund</u>	<u>Wastewater Facility</u>	<u>Police Annex</u>	<u>Other Governmental Funds</u>	<u>Business- Type Water Fund</u>	<u>Business Type Wood Waste Fund</u>
Amounts transferred from Waterways						
Improvement to fund FY 2012 operating budget	\$ 170,000	\$	\$	\$ (170,000)	\$	\$
Amounts transfer from Land Bank Fund to supplement FY 2012 budget	870,519			(870,519)		
Amounts transferred from Wetlands Protection Funds to supplement FY 2012 budget	10,000			(10,000)		
Amounts transferred from Cemetery Sale of Lots to supplement FY 2012 budget	1,000			(1,000)		
Amounts transferred from Railroad Museum fund to supplement FY 2012 budget	3,000			(3,000)		
Amounts transferred from Shellfish Revolving to supplement FY 2012 operating budget	8,000			(8,000)		
Amounts transferred from Perpetual Care to supplement FY 2012 operating budget	10,000			(10,000)		
Amounts transferred from General Fund to Pleasant Bay Alliance Fund to fund operations	(32,774)			32,774		
General Fund funding of BAN pay downs	(687,205)	189,287	416,668	81,250		
General Fund funding of Water Fund	(400,000)				400,000	
Amounts transferred from Water Fund to fund indirect costs appropriated in General Fund.	341,695				(341,695)	
Totals on budgetary basis	294,235	189,287	416,668	(958,495)	58,305	
Amounts transferred from General Fund to Woodwaste Fund to fund debt service costs	(200,050)					200,050
Water Fund overhead reclassified for modified accrual basis	(341,695)				341,695	
Totals on governmental fund basis	\$ (247,510)	\$ 189,287	\$ 416,668	\$ (958,495)	\$ 400,000	\$ 200,050

TOWN OF CHATHAM, MASSACHUSETTS
Notes to Financial Statements
June 30, 2012

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, 2012:

<u>Purpose</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Current</u> <u>Portion</u>
Governmental activities:					
Sewer-filtration beds, subsidized, due 2017	\$ 23,352	\$	\$ (23,352)	\$	\$
MWPAT Septic betterment subsidized bond, due 2023	108,509		(10,829)	97,680	10,829
Municipal purposes-refunding, 3.98%, due 2021	1,224,966		(291,490)	933,476	291,786
Municipal purposes-refunding, 2.5%-5.0%, due 2016	2,705,000		(575,000)	2,130,000	555,000
Municipal purposes, 3.75%-4.1%, due 2025	3,425,000		(345,000)	3,080,000	345,000
Municipal purposes, subsidized, due 2025	37,500		(2,500)	35,000	2,500
Municipal purposes - refunding, 3.0%-5.0%, due 2019	7,845,000		(900,000)	6,945,000	1,085,000
Municipal purposes, 3.0% - 5.0%, due 2028	11,405,000		(870,000)	10,535,000	870,000
MWPAT WW Treatment Facility, 2.0%, due 2028	3,289,537		(135,114)	3,154,423	137,844
Municipal purposes, 2.0% - 5.0%, due 2037		21,425,681		21,425,681	1,020,681
USDA Sewer Bond, 2.75%, due 2049		21,585,540		21,585,540	568,041
USDA Sewer Bond, 2.75%, due 2049		1,763,460		1,763,460	47,662
MWPAT WW Treatment Facility, 2.0%, due 2032		7,518,952		7,518,952	
Subtotal long-term bonds	30,063,864	52,293,633	(3,153,285)	79,204,212	4,934,343
Unamortized bond premiums	1,000,985	1,282,245	(113,145)	2,170,085	164,434
Total long-term bonds	34,354,386	53,575,878	(3,266,430)	81,374,297	5,098,777
Landfill closure and monitoring liability	325,000		(25,000)	300,000	25,000
Other post employment benefits	6,973,300	3,427,014	(1,239,365)	9,160,949	
Compensated absences	1,053,789		(235,418)	818,371	
Total governmental noncurrent liabilities	<u>\$ 45,928,846</u>	<u>\$ 57,002,892</u>	<u>\$ (4,766,213)</u>	<u>\$ 91,653,617</u>	<u>\$ 5,123,777</u>
Business-type activities:					
Water Activities					
Land acquisition, 5.23%, due 2014	\$ 40,034	\$	\$ (8,510)	\$ 31,524	\$ 8,214
Municipal purposes-refunding, 3.98%, due 2021	1,430,000		(350,000)	1,080,000	305,000
Land acquisition, 3.78%, due 2011	40,000		(40,000)		
Municipal purposes, 3.75% - 4.1%, due 2025	2,355,000		(165,000)	2,190,000	165,000
Municipal purposes, 4.25%, due 2049	475,000		(12,500)	462,500	12,500
Municipal purposes, 3.0% - 5.0%, due 2028	550,000		(35,000)	515,000	35,000
Municipal purpose - refunding, 3.0% - 5.0%, due 2019	410,000		(60,000)	350,000	50,000
Municipal purpose, 2.0% - 5.0%, due 2032		1,509,722		1,509,722	84,722
Subtotal long-term bonds payable	5,300,034	1,509,722	(671,010)	6,138,746	660,436
Unamortized bond premiums	36,681		(5,240)	31,441	5,240
Total long-term bonds payable	5,336,715	1,509,722	(676,250)	6,170,187	665,676
Compensated absences	22,360		(20,301)	2,059	
Total water activities noncurrent liabilities	<u>\$ 5,359,075</u>	<u>\$ 1,509,722</u>	<u>\$ (696,551)</u>	<u>\$ 6,172,246</u>	<u>\$ 665,676</u>
Wood Waste Activities					
Land acquisition, 3.0% - 5.0%, due 2028	\$ 1,325,000	\$	\$ (150,000)	\$ 1,175,000	\$ 150,000
Total wood waste activities noncurrent liabilities	1,325,000		(150,000)	1,175,000	150,000
Total business-type activities noncurrent liabilities	<u>\$ 6,684,075</u>	<u>\$ 1,509,722</u>	<u>\$ (846,551)</u>	<u>\$ 7,347,246</u>	<u>\$ 815,676</u>
Component unit activities:					
Compensated absences	\$ 21,586	\$ 2,147	\$	\$ 23,733	\$
Total component unit activities noncurrent liabilities	<u>\$ 21,586</u>	<u>\$ 2,147</u>	<u>\$</u>	<u>\$ 23,733</u>	<u>\$</u>

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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, 2012, including interest, are as follows:

Year Ending June 30,	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,934,343	\$ 2,442,016	\$ 7,376,359	\$ 810,436	\$ 275,378	\$1,085,814
2014	5,205,818	2,341,641	7,547,459	750,492	247,120	997,612
2015	4,833,155	2,173,971	7,007,126	692,606	220,059	912,665
2016	4,732,807	2,019,002	6,751,809	572,606	196,031	768,637
2017	4,727,665	1,823,018	6,550,683	572,606	170,035	742,641
2018 – 2022	17,003,611	7,075,033	24,078,644	2,062,500	553,280	2,615,780
2023 – 2027	12,557,444	4,548,830	17,106,274	1,197,500	226,468	1,423,968
2025 – 2032	9,886,813	2,986,466	12,873,279	442,500	86,338	528,838
2033 – 2037	7,366,133	1,751,487	9,117,620	62,500	39,844	102,344
2038 – 2042	3,078,515	924,690	4,003,205	62,500	26,563	89,063
2043 – 2047	3,078,515	501,394	3,579,909	62,500	13,281	75,781
2048 – 2052	<u>1,799,393</u>	<u>97,656</u>	<u>1,897,049</u>	<u>25,000</u>	<u>1,594</u>	<u>26,594</u>
Totals	<u>\$79,204,212</u>	<u>\$28,685,204</u>	<u>\$107,889,416</u>	<u>\$7,313,746</u>	<u>\$ 2,055,991</u>	<u>\$9,369,737</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, 2012:

<u>Purpose</u>	<u>Year(s) Authorized</u>	<u>Amount</u>
Community septic - betterment	2002	\$ 150,000
Planning – roads	1995	150,000
Landfill closure	2004	330,000
Community center	2003	15,000
Land acquisition	2006	760,000
Road/sidewalk/bike path	2007	500,000
Wastewater Treatment Facility	2009	19,037,400
Ell Street and Sky Way Improvements	2009	45,000
Water main replacement	2010	450,000
Edson Property	2011	32,500
Mill Pond Wells	2012	650,000
Iron Removal Treatment Facility	2012	700,000
Water main replacement	2012	1,000,000
		<u>\$ 23,819,900</u>

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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, 2012.

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, 2012.

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, 2012 are as follows:

Governmental Activities

<u>Type/ Dated Date</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance July 1, 2011</u>	<u>Issued</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Interim Loan 12/15/2010	Municipal Purposes	0.25%	12/31/2011	\$ 7,518,952	\$	\$ (7,518,952)	\$
Interim Loan 4/15/2013	Municipal Purposes	0.14%	4/15/2013		2,256,265		2,256,265
ARRA Principal Forgiveness Portion of Interim Note	Municipal Purposes	N/A	N/A	1,435,011			1,435,011
BAN 6/30/2011	Municipal Purposes	1.50%	6/30/2012	43,500,000		(43,500,000)	
Total Governmental Activities				<u>\$52,453,963</u>	<u>\$2,256,265</u>	<u>\$(51,018,952)</u>	<u>\$ 3,691,276</u>

Business-Type Activities

<u>Type/ Dated Date</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance July 1, 2011</u>	<u>Issued</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
<u>Water Activities:</u>							
BAN 6/30/2011	Municipal Purposes	1.50%	6/30/2012	\$ 1,400,000	\$	\$ (1,400,000)	\$
Subtotal Water Activities				<u>1,400,000</u>		<u>(1,400,000)</u>	
Total Business-Type Activities				<u>\$ 1,400,000</u>	<u>\$</u>	<u>\$(1,400,000)</u>	<u>\$</u>

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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. Since the project has not been completed the potential principle forgiveness remains as an outstanding liability of the Town as of June 30, 2012.

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 \$1,465,293, 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, 2011 and 2010 were \$1,456,864 and \$1,508,841, 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, \$2,151,175 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.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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 employees upon termination of employment and has been recorded as a liability in the accompanying Statement of Net Assets for both governmental and business-type activities.

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 159 retirees and their dependents. The cost of retiree's healthcare benefits is recognized as an expenditure as premiums are paid. For 2012, those costs approximated \$902,000.

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	\$ 3,333,384
Interest on net OPEB obligation	
Adjustment to annual required contribution	<u>93,630</u>
Annual OPEB cost (expenses)	3,427,014
Contributions made	<u>(1,239,365)</u>
Increase in net OPEB obligation	2,187,649
Net OPEB obligation, beginning year	<u>6,973,300</u>
Net OPEB obligation, end of year	<u><u>\$ 9,160,949</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 3,427,014	36.16%	\$ 2,187,649
6/30/2011	\$ 3,222,371	33.47%	\$ 2,143,856
6/30/2010	\$ 3,094,256	22.35%	\$ 2,402,694

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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]
6/30/2010	\$	\$ 43,726,097	\$ 43,726,097	0.00%	\$ 18,055,803	242.2%

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

Medical/Drug Cost Trend Rates: 10.0% decreasing by 0.75% for 6 years and by 0.50% for 1 year to an ultimate level of 5.00% per year.

Dental Cost Trend Rate: 5.0% per annum

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: 28 years at June 30, 2010

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

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, 2012, \$300,000 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.

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, 2012, the Group had net assets of \$20,941,595 (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 #57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, which is required to be implemented in fiscal year 2012. 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 #64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No.53., which is required to be implemented in fiscal year 2012. This pronouncement addresses financial reporting issues involving hedge accounting surrounding derivative instruments. The standards in this statement currently do not apply to the Town and therefore did not impact the Town's financial statements.

TOWN OF CHATHAM, MASSACHUSETTS

Notes to Financial Statements

June 30, 2012

Future pronouncements

The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. This pronouncement's objective is to improve financial reporting by addressing issues related to service concession arrangements (SCA), which are types of public-private or public-public partnerships through the use of infrastructure or another public asset in exchange for significant consideration. The Town doesn't believe this pronouncement will impact the Town's financial statements.

The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, which is required to be implemented in fiscal year 2013. This pronouncement modifies requirements for the inclusion of component units in the financial reporting entity. The Town doesn't believe this pronouncement will impact the Town's financial statements.

The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. This pronouncement will continue the codification of all generally accepted accounting principles for state and local governments into a single source.

The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. This pronouncement will standardize the financial reporting relating to the elements of a government's consumption of net assets, and an acquisition of net assets that is applicable to a future reporting period. The Town doesn't believe this pronouncement will impact the Town's financial statements.

The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013. This pronouncement will clarify the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Town doesn't believe this pronouncement will impact the Town's financial statements.

The GASB issued Statement #66, *Technical Corrections - 2012*, which is required to be implemented in fiscal year 2013. This pronouncement will resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The Town expects this pronouncement will require additional disclosure and impact the Town's financial statements.

The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in fiscal year 2014. This pronouncement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The Town expects this pronouncement will require additional disclosure and impact the Town's financial statements.

The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. This pronouncement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The Town expects this pronouncement will require additional disclosure and impact the Town's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, MASSACHUSETTS

Required Supplementary Information

June 30, 2012

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]
6/30/2010	\$	\$ 43,726,097	\$ 43,726,097	0.00%	\$ 18,055,803	242.2%
6/30/2008	\$	\$ 40,775,669	\$ 40,775,669	0.00%	\$ 17,166,681	237.5%
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
6/30/2012	\$ 3,333,384	37.2%
6/30/2011	\$ 3,222,371	33.5%
6/30/2010	\$ 3,094,256	22.3%

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, 2012

Actuarial Cost Method: Projected Unit Credit

Investment Rate of Return: 5.0% per annum

Medical/Drug Cost Trend Rates: 10.0% decreasing by 0.75% for 6 years and by 0.50% for
1 year to an ultimate level of 5.00% per year.

Dental Cost Trend Rate: 5.0% per annum

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: 28 years at June 30, 2010

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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and payments in lieu	\$ 25,319,043	\$ 25,896,543	\$ 25,927,117	\$ 30,574
Excise taxes	2,170,000	2,170,000	2,365,762	195,762
Licenses and permits	770,000	770,000	885,001	115,001
Penalties and interest	80,000	80,000	189,998	109,998
Investment interest	45,000	45,000	22,135	(22,865)
Charges for services	2,150,000	2,150,000	2,262,736	112,736
Special assessments	120,000	120,000	140,005	20,005
Fees and fines	50,000	50,000	61,104	11,104
Departmental and other	632,361	632,361	502,582	(129,779)
Intergovernmental	1,924,793	1,924,793	1,917,574	(7,219)
Total revenues	<u>33,261,197</u>	<u>33,838,697</u>	<u>34,274,014</u>	<u>435,317</u>
Expenditures				
General government	2,895,557	2,393,890	2,263,274	130,616
Public safety	5,093,918	5,110,966	5,069,861	41,105
Education	10,382,804	10,371,457	9,923,473	447,984
Public works	5,066,035	4,358,248	4,257,922	100,326
Community planning and development	716,077	664,007	655,880	8,127
Health & human services	771,854	606,732	569,822	36,910
Culture and recreation	968,089	966,539	905,842	60,697
Coastal resources	1,113,863	833,325	829,307	4,018
Employee benefits	3,875,990	3,875,990	3,838,305	37,685
State and county assessments	1,203,111	1,203,111	1,222,810	(19,699)
Debt service	5,272,691	5,740,691	5,872,573	(131,882)
Total expenditures	<u>37,359,989</u>	<u>36,124,956</u>	<u>35,409,069</u>	<u>715,887</u>
Revenues over (under) expenditures	(4,098,792)	(2,286,259)	(1,135,055)	1,151,204
Other financing sources (uses)				
Proceeds of bond premium			1,282,245	1,282,245
Transfers in from other funds	1,414,214	1,414,214	1,414,214	
Transfers out to other funds	(432,774)	(432,774)	(432,774)	
Total other financing sources	<u>981,440</u>	<u>981,440</u>	<u>2,263,685</u>	<u>1,282,245</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(3,117,352)	(1,304,819)	1,128,630	<u>\$ 2,433,449</u>
Fund balance, beginning of year			<u>5,426,344</u>	
Fund balances, end of year			<u>\$ 6,554,974</u>	
Other budget items				
Free cash appropriations	814,300	814,300		
Carryover encumbrances	2,310,357	497,824		
Total other budget items	<u>3,117,352</u>	<u>1,304,819</u>		
Net budget	<u>\$</u>	<u>\$</u>		

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

TOWN OF CHATHAM, MASSACHUSETTS
FINANCIAL REPORT PURSUANT TO OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2012

TOWN OF CHATHAM, MASSACHUSETTS
FINANCIAL REPORT PURSUANT TO OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2012

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

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, 2012, which collectively comprise the Town of Chatham, Massachusetts' basic financial statements and have issued our report thereon dated May 20, 2013. 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. Other auditors audited the financial statements of Eldredge Public Library, Inc., as described in our report on the Town of Chatham, Massachusetts' financial statements. The financial statements of Eldredge Public Library, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Town of Chatham, Massachusetts is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Chatham, Massachusetts' internal control over financial as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Chatham, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Chatham's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town of Chatham, Massachusetts, in a separate letter dated May 20, 2013.

This report is intended solely for the information and use of management, Board of Selectmen, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

MLB CPA, LLP

May 20, 2013



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Board of Selectmen
Town of Chatham, Massachusetts

Compliance

We have audited the Town of Chatham, Massachusetts's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The Town of Chatham, Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Chatham, Massachusetts' management. Our responsibility is to express an opinion on the Town of Chatham, Massachusetts' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Chatham, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Chatham, Massachusetts' compliance with those requirements.

In our opinion, the Town of Chatham, Massachusetts complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Town of Chatham, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Chatham, Massachusetts' internal control over compliance with requirements that could have a direct and material effect a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Chatham, Massachusetts' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental 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, 2012, and have issued our report thereon, dated May 20, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, Board of Selectmen, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

MLBCPA, LLP

May 20, 2013

TOWN OF CHATHAM, MASSACHUSETTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass -through Grantor/Program or Title	Pass - Through Number	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed through MA Department of Education:			
Food Distribution	N/A	10.555	\$ 13,833
School Lunch	N/A	10.555	<u>54,229</u>
Subtotal CFDA #10.555			68,062
Passed through Rural Development:			
ARRA Water and Waste Disposal Systems for Rural Communities	N/A	10.781	<u>13,290,415</u>
Total U.S. Department of Agriculture			<u>13,358,477</u>
<u>U.S. Department of Education</u>			
Passed through Commonwealth of MA:			
Title I Distribution	305-094-2-0055-M	84.010	61,929
Special Education Cluster (IDEA):			
SPED 94-142 Allocation	240-095-2-0055-M	84.027	139,357
SPED Program Improvement	274-101-2-0055-M	84.027	1,300
SPED Early Childhood Allocation	262-011-2-0055-M	84.173	3,453
ARRA SPED Early Childhood Allocation	762-011-2-0055-M	84.392	<u>2</u>
			144,112
Education Jobs Fund	206-273-2-0055-M	84.410	741
Teacher Quality	140-100-2-0055-M	84.367	18,058
ARRA - State Fiscal Stabilization Fund	780-184-2-0055-M	84.394	3,463
ARRA Race to the Top	201-130-2-0055-M	84.395	<u>7,290</u>
Total U.S. Department of Education			235,593
<u>U.S. Department of Justice</u>			
Bullying Prevention	N/A	16.579	<u>123</u>
Total U.S. Department of Justice			123
<u>U.S. Department of Homeland Security</u>			
Disaster Grant - Public Assistance	N/A	97.036	<u>6,230</u>
Total U.S. Department of Homeland Security			6,230
<u>U.S. Department of the Interior</u>			
Port Security Grant Program	N/A	15.242	<u>6,273</u>
Total U.S. Department of the Interior			6,273
<u>U.S. Department of Transportation</u>			
Federal Aviation Admin & Massachusetts Aeronautics Commission	N/A	20.106	<u>161,540</u>
Total U.S. Department of Transportation			161,540
<u>U.S. Environmental Protection Agency</u>			
Beach Monitoring	N/A	66.472	<u>3,122</u>
Total U.S. Environmental Protection Agency			<u>3,122</u>
Total			<u>\$ 13,771,358</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

TOWN OF CHATHAM, MASSACHUSETTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012

1. Scope of Audit

The Town of Chatham, Massachusetts is a governmental agency established by the laws of the Commonwealth of Massachusetts.

All operations related to the Town's Federal Grant Programs are included in the scope of the OMB Circular A-133 Audit Requirements for audits of state, local governments, and non-profit organizations (the single audit). The U.S. Department of Agriculture has been designated as the Town's oversight agency for the audit.

2. Period Audited

Single audit testing procedures were performed for the Town's federal grant transactions during the year ended June 30, 2012.

3. Summary of Significant Accounting Policies

Accounting policies and financial reporting practices permitted for municipalities in Massachusetts are prescribed by the Uniform Municipal Accounting System (UMAS) promulgated by the Commonwealth of Massachusetts Department of Revenue. The significant accounting policies followed by the Town are as follows:

(a) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes all the federal grant transactions of the Town.

The receipts and proceeds from federal grants are recorded on the modified accrual basis under which revenue is recognized when it becomes available and measurable. Disbursements of the federal grant funds are recorded on the accrual basis.

(b) Food Distribution Program

Non-cash contributions of commodities under the Food Distribution Program are received under a state distribution formula and are valued at federally published wholesale prices for purposes of this schedule. Such commodities are not recorded in the financial records although memorandum records are maintained.

TOWN OF CHATHAM, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Town of Chatham, Massachusetts.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of the Town of Chatham, Massachusetts, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the Town of Chatham, Massachusetts expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as major program included:
 - U.S. Department of Agriculture, Water and Waste Disposal Systems for Rural Communities, Recovery Act, CFDA #10.781
8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. The Town of Chatham, Massachusetts was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS - NONE

D. PRIOR YEAR AUDIT FINDINGS - NONE