

TOWN OF CHATHAM, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2017

TOWN OF CHATHAM, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Chatham, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the town of Chatham, Massachusetts (the "Town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents. We did not audit the financial statement of the Eldredge Public Library (the "Library") the discretely presented component unit of the Town, as of and for the year ended June 30, 2017. The accompanying financial statements do not include all disclosures for the Library, as required by generally accepted accounting principles. Such information can be found in the separate financial statements for the year ended June 30, 2017, which was audited by other auditors.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Library. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for the Library, is based solely on the report of the other auditors. We assume no responsibility for the work or opinion of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Library were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The other auditor's report on the financial statements of the Library, the discretely presented component unit of the Town of Chatham, Massachusetts indicated those financial statements present fairly, in all material respects the respective financial position of the Library, as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Town's proportionate share of net pension liability and the Town's contributions to pension plan, the funding and contribution progress for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Scappini & Pina, P.C.

Norwell, Massachusetts

May 31, 2018



INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely component unit, each major fund, and the aggregate remaining fund information of the Town of Chatham, Massachusetts, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Chatham, Massachusetts' basic financial statements and have issued our report thereon dated May 31, 2018. Our report includes a reference to other auditors who audited the financial statements of the Eldredge Public Library, as described in our report on the Town of Chatham, Massachusetts' financial statements. This report does not include the result of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Eldredge Public Library were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. (2017-001, 2016-002 and 2017-003)

Compliance and Other Matters

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

Town of Chatham, Massachusetts' Response to Findings

Town of Chatham, Massachusetts' response to the findings identified in our engagement is described in the accompanying schedule of findings and responses. Town of Chatham, Massachusetts' response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Scappini & Pina, P.C.

Norwell, Massachusetts

May 31, 2018

TOWN OF CHATHAM, MASSACHUSETTS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

Material Weakness

2017 – 001 Cash Reconciliations

Condition: Cash reconciliations were not completely timely and accurately throughout the year.

Criteria: Internal controls should be in place to provide reasonable assurance that all cash accounts are reconciled and regularly reviewed to avoid potential misappropriation.

Cause: Cash account reconciliations were not reconciled with the bank statements completely on a timely basis during the year.

Effect: When cash reconciliations are not completed timely and accurately, misstatements may exist and not be detected or corrected on a timely basis.

Recommendation: The Town should implement a process reconcile the Treasurer's cash account balances both with the bank statements and the general ledger on a timely basis. The Town Accountant and Treasurer should complete monthly reconciliations and sign-off on their agreement of the reconciled balances.

View of responsible officials and planned corrective actions: The Town will endeavor to reconcile cash on a monthly basis in fiscal year 2018. The Town will continue to work to identify variances that existed as of June 30, 2017.

Material Weakness

2017 – 002 Accounts Receivable Reconciliations

Condition: Tax and user fee receivable reconciliations between the Treasurer/Collector's and the Accountant's offices were not completed during the year.

Criteria: Internal controls should be in place to provide reasonable assurance that all accounts receivable are accurately recorded, activity tracked and reconciled in a timely manner.

Cause: Procedures were not in place to complete monthly reconciliations between the Treasurer/Collector and the Accountant.

Effect: Significant time was needed after year-end to complete the reconciliation process. When accounts receivable reconciliations are not completed timely and accurately, misstatements may exist and not be detected or corrected on a timely basis.

Recommendation: The Town should implement a process to regularly record, track and reconcile all accounts receivable, including review of detail and maintain the balances and activity in the Town's ledger on a monthly basis.

View of responsible officials and planned corrective actions: The Town will work to reconcile the outstanding differences in receivables as well as to reconcile on a timely basis, and to ensure accurate reporting at end of year.

Material Weakness

2017 – 003 Fixed Asset and Infrastructure Inventory

Criteria: The Town must provide adequate procedures to maintain internal controls of the Town's fixed asset and infrastructure inventory.

Condition: The Town's fixed assets and infrastructure inventory must be reported in the Town's audited financial statements annually.

Cause: During the audit, it was determined that the current practices in place do not allow for an ongoing fixed asset and infrastructure inventory to be maintained for inclusion in the audited financial statements. The Town did provide a listing of fixed asset additions for the year. As a result of our audit procedures we discovered approximately \$2.7 million of additions that were not included on the original listing provided.

Effect: Without a complete and accurate ongoing fixed asset and infrastructure inventory the Town is at risk of misstating the capital assets reported in the financial statements.

Recommendation: The Town should implement a process to regularly record and track a fixed asset and infrastructure inventory, inclusive of current and accumulated depreciation for inclusion in the Town's financial statements.

View of responsible officials and planned corrective actions: Corrective actions have been put in place to better manage this information. A complete fixed asset inventory going forward.

MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As the 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, 2017 and 2016. 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

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of the following components: 1) government-wide financial statements 2) fund financial statements and 3) notes to financial statements. The notes to the financial statements provide information related to these changes which are essential in understanding the current financial statements and comparisons with previous years. Required supplementary information as required by the Government Accounting Standards Board ("GASB") is presented to provide additional analysis.

Government-Wide Financial 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 Position: The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of 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).

Both of the government wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions 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 governmental-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 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, and has not been presented with in this Management's Discussion and Analysis.

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:

Government 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 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 two are considered major funds (the general fund and the wastewater facility 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 nonmajor 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. 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 for the water and waste wood reclamation operations. The Basic proprietary fund financial statements can be found in the accompanying pages of this report.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those 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, other post-employment benefits trust fund (OPEB), 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 in the accompanying pages of this report.

Required supplementary information: The Town adopts an annual budget for its general fund. A Budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

Additionally, the Town reports the schedule of funding progress for its Other Post Employment Benefit Plan (OPEB) and schedules of employer pension contributions.

Government-Wide Financial Analysis:

Statement of Net Position: The following table reflects the condensed schedule of net position based on the statement of net position of the primary government found on the accompanying pages of this report.

Net Position		
	Primary Government	
	June 30, 2017	June 30, 2016
<u>Assets</u>		
Current and other assets	\$ 52,043,000	\$ 32,449,504
Capital assets, net	181,319,891	177,742,140
Total assets	233,362,891	210,191,644
Deferred outflows of resources	3,103,957	1,641,163
<u>Liabilities</u>		
Long-term liabilities	112,822,810	116,392,866
Other liabilities	26,008,923	4,613,452
Total liabilities	138,831,733	121,006,318
Deferred inflows of resources	5,775,835	4,528,156
<u>Net Position</u>		
Net investment in capital assets	95,386,867	93,689,287
Restricted	8,206,382	7,463,137
Unrestricted	(11,733,969)	(14,854,091)
Net Position	\$ 91,859,280	\$ 86,298,333

The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2017 and 2016 by \$91,859,280 and \$86,298,333 (presented as net position), respectively. Included in these amounts are unrestricted net position of \$(11,733,969) and \$(14,854,091), respectively.

The components of net position 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 \$95,386,867 and \$93,689,287 at June 30, 2017 and 2016, 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.

Statement of Activities: The Town's total net position (primary government) increased by \$5,560,947 and increased by \$5,026,672 during fiscal year 2017 and 2016, respectively.

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

Change in Net Position		
	Governmental activities	
	June 30, 2017	June 30, 2016
Revenues		
Program revenues:		
Charges for services	\$ 4,768,242	\$ 4,469,116
Operating grants and contributions	965,952	992,260
Capital grants and contributions	1,349,708	532,938
General revenues:		
Property taxes	33,992,870	32,805,596
Excise taxes	3,196,310	3,056,075
Penalties and interest taxes	212,137	300,547
Grants and contributions not restricted to specific programs	117,126	138,739
Loss on disposal of assets	-	(53,341)
Investment income	108,989	221,000
Miscellaneous	524,290	115,985
Total revenues	45,235,624	42,578,915
Expenses		
General government	3,748,020	3,291,950
Public safety	6,818,554	6,846,257
Education	9,449,939	8,981,068
Public works	6,612,685	6,709,491
Community planning and development	811,580	878,189
Health and human services	582,693	676,489
Culture and recreation	1,588,586	1,470,299
Coastal resources	1,377,019	1,257,257
Employee benefits	5,835,255	4,697,630
Interest on long-term debt	1,996,426	2,008,015
State and county charges	714,974	694,402
Total expenses	39,535,731	37,511,047
Change in net position before transfers	5,699,893	5,067,868
Transfers	(569,479)	(874,363)
Change in net position	5,130,414	4,193,505
Net position, beginning of year	71,119,399	66,925,894
Net position, end of year	\$ 76,249,813	\$ 71,119,399

Total Revenues

Total governmental activities revenues increased \$2,656,709 from 2016 for the Town. The majority of this increase relates to the increase in tax revenues as a result of new growth in the current year, as well as certain non-recurring capital grants received during the year.

General Revenues

Real Estate revenues were the Town's largest revenue source at \$33,992,870 and \$32,806,596, representing 89.1% and 89.7% of general revenues for 2017 and 2016, respectively. The assessed tax valuation base increased to \$6,438,586,200 in 2016 from \$6,203,316,460 in 2016. The increase of 4% is due to increasing property values.

Program Revenues

Governmental charges for services were \$4,768,242 and \$4,469,116 representing a variety of departmental revenues for 2017 and 2016, respectively. The largest of portion relates to Public Works revenues of \$1,683,903 and \$1,596,452, for charges for services for the landfill and sewer for 2017 and 2016, respectively.

Governmental operating grants contributions of \$965,952 and \$992,260 represent several federal state grants restricted to specific grant conditions. This accounts for approximately 2.14% and 2.33% of the total Town governmental activities and revenues.

Expenses

For fiscal year ended June 30, 2017 and 2016, expenses for governmental activities totaled \$39,535,731 and \$37,511,047. The total expenses increased 5.40% over the prior year. There was an increase in the employee fringe benefits related to the increased pension and OPEB liabilities, as well as rising health care costs. Additionally, there was an increase in the education expenses related to the increased school assessments.

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

	Change in Net Position	
	Business-type activities	
Revenues	June 30, 2017	June 30, 2016
Program revenues:		
Charges for services	\$ 3,057,458	\$ 2,733,431
Fines and forfeitures	<u>30,924</u>	<u>32,667</u>
Total operating revenues	3,088,382	2,766,098
Expenses:		
Salaries, wages, and employee benefits	636,817	469,104
Expenses	1,783,572	1,292,192
Depreciation	<u>771,795</u>	<u>787,816</u>
Total expenses	3,192,184	2,549,112
Total operating income	(103,802)	216,986
Non operating revenues (expenses):		
Debt service	(331,954)	(302,737)
Water tower lease	296,810	344,555
Transfers in	<u>569,479</u>	<u>574,363</u>
Total non operating revenue (expenses), net	<u>534,335</u>	<u>616,181</u>
Change in net position	430,533	833,167
Net position, beginning of year	<u>15,178,934</u>	<u>14,345,767</u>
Net position, end of year	<u>\$ 15,609,467</u>	<u>\$ 15,178,934</u>

Operating Revenues

Total business-type activities operating revenues showed an increase of approximately \$324,000 from the prior year related to the increase in water usage during the year.

Expenses

Total business-type activities operating expenses showed an increase of approximately \$643,000 from the prior year water meter replacement costs and various other expenses.

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. Any negative unassigned fund balance represents expenditures incurred for specific purpose which exceeded the amounts restricted, committed, or assigned for that purpose.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance surplus of approximately \$16.8 million, a decrease of approximately \$581,000 from the prior year. The governmental funds' combined ending fund balances were reported in the following classification: non-spendable fund balance of \$0.8 million, restricted fund balance of \$6.2 million, committed fund balance of \$6.8 million, assigned fund balance of \$2.4 million and an unassigned fund balance of \$0.6 million.

The general fund is the chief operating fund. At the end of the current fiscal year, the general fund reported aggregate fund balance of \$13.9 million, a decrease of \$172,000 from the previous year. Of this amount \$1.2 million or 8% represents restricted fund balance. Committed fund balance of \$4.5 million and assigned fund balance of \$2.4 million represents 49.8% 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 14.1% and 13.8%, respectively, of total general fund expenditures and revenues. Total General Fund balance represents 33.8% and 33.1%, respectively, of the same amounts.

General Fund Budgetary Highlights

The difference between the original expenditure budget of \$47.6 million and the final expenditure budget of \$43.6 million is due to \$4.6 million in encumbrances and articles being carried over to the subsequent fiscal year, as well as the \$593,180 of appropriations authorized at the Special Town Meetings during the fiscal year.

Capital Asset and Debt Administration

Capital Assets: The Town's investment in capital assets for governmental activities as of June 30, 2017 and 2016, amounted to \$162.3 million and \$159.5million, which is net of accumulated depreciation of \$62.1 million and \$57.3 million. 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, 2017 and 2016, amounts to \$19.0 million and \$18.3 million, which is net of accumulated depreciation of \$22.6 million and \$21.8 million. 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>	
	2017	2016	2017	2016
Land	\$ 33,124	\$ 31,705	\$ 3,163	\$ 3,163
Construction in progress	6,624	4,228	2,059	666
Buildings and related improvements	104,428	107,717	1,006	1,062
Improvements other than buildings	6,627	5,162	449	484
Equipment, machinery, and vehicles	3,474	2,346	102	128
Infrastructure	8,025	8,320	12,238	12,761
	<u>\$ 162,302</u>	<u>\$ 159,478</u>	<u>\$ 19,017</u>	<u>\$ 18,264</u>

Major capital asset events for governmental and business-type activities during 2017 include the following:

- Land acquisitions and improvements
- Construction costs on wastewater treatment facility
- Construction costs for the fire station headquarters
- Vehicle and equipment additions

Long-term debt: At June 30, 2017, the Town had total bonded debt outstanding of \$72,255,626 and \$4,938,600 for the governmental and business-type activities, respectively, which is a decrease of 8% for the governmental and a decrease of 16% for the business-type activities from prior year. All debt is a general obligation of the Town.

The Town of Chatham maintains a bond rating of AAA with Standard and Poor's Corporation.

Economic Factors and Next Year's Budgets and Rates

The Town has increased its property tax levy by 1.8% from \$32.4 million in 2017 to \$33.0 million in 2018. The increase was from new growth, debt exclusions and increased debt service.

The operating budget increased 3.5% compared to the FY 17 budget. The increase is mostly attributable to increases in employee benefits and debt service costs.

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 of the information provided in this report or requests for additional financial information should be addressed to the Town of Chatham, Attn: Accounting Office, 549 Main Street, Chatham, MA 02633

BASIC FINANCIAL STATEMENTS

TOWN OF CHATHAM, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Eldredge Public Library
Assets				
Cash and cash equivalents	\$ 11,979,155	\$ 4,679,518	\$ 16,658,673	\$ 145,233
Investments	7,096,096	-	7,096,096	5,746,849
Receivables, net of allowance for uncollectibles	6,026,219	794,561	6,820,780	-
Other receivables	21,467,451	-	21,467,451	-
Capital assets, net of depreciation	162,302,150	19,017,741	181,319,891	34,987
Total Assets	208,871,071	24,491,820	233,362,891	5,927,069
Deferred Outflows of Resources				
Net difference between projected and actual pension earnings	1,111,096	181,000	1,292,096	-
Changes in proportion and differences between contributions	150,172	24,000	174,172	-
Changes in pension assumptions	1,159,414	189,000	1,348,414	-
Deferred amount on bond costs	252,652	36,623	289,275	-
Total Deferred Outflows of Resources	2,673,334	430,623	3,103,957	-
Liabilities				
Current liabilities:				
Warrants and salaries payable	643,765	856,282	1,500,047	1,227
Accrued interest	336,300	43,145	379,445	-
Provision for refund of paid taxes	676,971	-	676,971	-
Agency and other payables	165,432	-	165,432	-
Bond anticipation notes payable	23,287,028	-	23,287,028	-
Noncurrent liabilities:				
Due in one year or less	5,444,192	724,500	6,168,692	-
Due in more than one year	99,255,618	7,398,500	106,654,118	26,600
Total Liabilities	129,809,306	9,022,427	138,831,733	27,827
Deferred Inflows of Resources				
Deferred revenue	2,863,298	-	2,863,298	-
Net difference between projected and actual pension earnings	335,520	55,000	390,520	-
Changes in pension expectations and actual experiences	250,252	41,000	291,252	-
Unamortized bond premiums	2,036,216	194,549	2,230,765	-
Total Deferred Inflows of Resources	5,485,286	290,549	5,775,835	-
Net Position				
Net investment in capital assets	81,307,726	14,079,141	95,386,867	-
Restricted	8,206,382	-	8,206,382	1,033,128
Unrestricted	(13,264,295)	1,530,326	(11,733,969)	4,866,114
Total Net Position	\$ 76,249,813	\$ 15,609,467	\$ 91,859,280	\$ 5,899,242

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			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								
<u>Governmental Activities:</u>								
General government	\$ 3,748,020	\$ 765,072	\$ 333,334	\$ 9,100	\$ (2,640,514)	\$ -	\$ (2,640,514)	\$ -
Public safety	6,818,554	595,583	10,505	-	(6,212,466)	-	(6,212,466)	-
Education	9,449,939	-	73,438	256,108	(9,120,393)	-	(9,120,393)	-
Public works	6,612,685	1,683,903	177,074	-	(4,751,708)	-	(4,751,708)	-
Community planning and development	811,580	63,191	15,703	-	(732,686)	-	(732,686)	-
Health and human services	582,693	61,145	30,759	-	(490,789)	-	(490,789)	-
Culture and recreation	1,588,586	206,741	41,539	-	(1,340,306)	-	(1,340,306)	-
Coastal Resources	1,377,019	1,392,607	283,600	1,084,500	1,383,688	-	1,383,688	-
Employee benefits	5,835,255	-	-	-	(5,835,255)	-	(5,835,255)	-
State and county charges	714,974	-	-	-	(714,974)	-	(714,974)	-
Interest expense and other charges	1,996,426	-	-	-	(1,996,426)	-	(1,996,426)	-
Total Governmental Activities	39,535,731	4,768,242	965,952	1,349,708	(32,451,829)	-	(32,451,829)	-
<u>Business-Type Activities:</u>								
Water fund	3,483,918	3,349,517	-	-	-	(134,401)	(134,401)	-
Wood Waste Reclamation Center	40,220	35,675	-	-	-	(4,545)	(4,545)	-
Total Business-Type Activities	3,524,138	3,385,192	-	-	-	(138,946)	(138,946)	-
Total Primary Government	\$ 43,059,869	\$ 8,153,434	\$ 965,952	\$ 1,349,708	(32,451,829)	(138,946)	(32,590,775)	-
Component Unit								
Eldredge Public Library	\$ 942,155	\$ -	\$ 774,470	\$ -	-	-	-	(167,685)
<u>General Revenues:</u>								
Property taxes, net of allowances for uncollectibles	-	-	-	-	33,992,870	-	33,992,870	-
Excise taxes	-	-	-	-	3,196,310	-	3,196,310	-
Penalties and interest on taxes	-	-	-	-	212,137	-	212,137	-
Grants and contributions not restricted to specific programs	-	-	-	-	117,126	-	117,126	-
Investment income	-	-	-	-	108,989	-	108,989	581,519
Miscellaneous	-	-	-	-	524,290	-	524,290	8,854
Transfers (net)	-	-	-	-	(569,479)	569,479	-	-
Total general revenues and transfers	-	-	-	-	37,582,243	569,479	38,151,722	590,373
Change in Net Position	-	-	-	-	5,130,414	430,533	5,560,947	422,688
Net Position - Beginning	-	-	-	-	71,119,399	15,178,934	86,298,333	5,476,554
Net Position - Ending	\$ 76,249,813	\$ 15,609,467	\$ 91,859,280	\$ 5,899,242	-	-	-	-

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General	Wastewater Facility	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 6,865,794	\$ -	\$ 5,113,361	\$ 11,979,155
Investments	3,904,268	-	3,191,828	7,096,096
Receivables, net	3,503,387	-	2,905,632	6,409,019
Other receivables	-	21,467,451	-	21,467,451
Interfund receivables	3,469,963	-	-	3,469,963
Total Assets	<u>17,743,412</u>	<u>21,467,451</u>	<u>11,210,821</u>	<u>50,421,684</u>
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 17,743,412</u>	<u>\$ 21,467,451</u>	<u>\$ 11,210,821</u>	<u>\$ 50,421,684</u>
Liabilities				
Warrants and salaries payable	\$ 547,601	\$ 13,044	\$ 83,120	\$ 643,765
Provision for refund of paid taxes	676,971	-	-	676,971
Agency and other payables	165,432	-	-	165,432
Notes payable	-	22,687,028	600,000	23,287,028
Interfund payables	-	3,469,963	-	3,469,963
Total Liabilities	<u>1,390,004</u>	<u>26,170,035</u>	<u>683,120</u>	<u>28,243,159</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	342,337	-	42,334	384,671
Unavailable revenue - excise taxes	311,519	-	-	311,519
Unavailable revenue - other	1,792,236	-	2,863,298	4,655,534
Total Deferred Inflows of Resources	<u>2,446,092</u>	<u>-</u>	<u>2,905,632</u>	<u>5,351,724</u>
Fund Balances				
Nonspendable	-	-	839,742	839,742
Restricted	1,165,169	-	5,068,238	6,233,407
Assigned	2,409,442	-	-	2,409,442
Committed	4,522,260	-	2,256,069	6,778,329
Unassigned	5,810,445	(4,702,584)	(541,980)	565,881
Total Fund Balances	<u>13,907,316</u>	<u>(4,702,584)</u>	<u>7,622,069</u>	<u>16,826,801</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 17,743,412</u>	<u>\$ 21,467,451</u>	<u>\$ 11,210,821</u>	<u>\$ 50,421,684</u>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
 JUNE 30, 2017

Total Governmental Fund Balances	\$ 16,826,801
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	162,302,150
Certain deferred inflows of resources are accrued as revenue on a full accrual basis and are not reported in the governmental funds	(133,562)
Reporting on full accrual basis requires an estimate for uncollectible accounts	(382,800)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds	(104,699,810)
Certain deferred outflows of resources are reported on a full accrual basis and are not reported in the governmental funds	2,673,334
Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued	<u>(336,300)</u>
Net Position of Governmental Activities	<u><u>\$ 76,249,813</u></u>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2017

	General	Wastewater Facility	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 32,155,683	\$ -	\$ 1,813,581	\$ 33,969,264
Excise taxes	3,216,724	-	-	3,216,724
License and permits	799,813	-	252,797	1,052,610
Penalties and interest	212,137	-	-	212,137
Investment income	36,670	-	72,083	108,753
Charges for services	2,094,872	-	122,001	2,216,873
Special assessments	82,212	-	-	82,212
Fees and fines	42,579	-	-	42,579
Contributions and donations	-	-	358,684	358,684
Departmental and other	1,408,030	-	417,644	1,825,674
Intergovernmental	1,151,881	-	1,617,725	2,769,606
Total Revenues	<u>41,200,601</u>	<u>-</u>	<u>4,654,515</u>	<u>45,855,116</u>
Expenditures:				
Current:				
General government	4,093,779	-	1,115,068	5,208,847
Public safety	6,584,987	-	802,515	7,387,502
Education	8,842,798	-	10,502	8,853,300
Public works	5,942,304	139,460	157,594	6,239,358
Community planning and development	745,841	-	69,815	815,656
Health and human services	574,430	-	33,465	607,895
Culture and recreation	1,146,263	-	88,938	1,235,201
Coastal resources	1,592,057	-	1,525,563	3,117,620
Employee benefits	4,120,568	-	-	4,120,568
State and county tax assessments	714,974	-	-	714,974
Debt service	7,635,035	-	-	7,635,035
Total Expenditures	<u>41,993,036</u>	<u>139,460</u>	<u>3,803,460</u>	<u>45,935,956</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(792,435)</u>	<u>(139,460)</u>	<u>851,055</u>	<u>(80,840)</u>
Other Financing Sources (Uses):				
Issuance of refunding bonds	5,706,400	-	-	5,706,400
Premiums from issuance of bonds	745,659	-	-	745,659
Discounts on issuance of bonds	(17,247)	-	-	(17,247)
Payments to refunding escrow agent	(6,365,668)	-	-	(6,365,668)
Transfers in	1,161,500	-	46,080	1,207,580
Transfers out	(609,979)	(5,580)	(1,161,500)	(1,777,059)
Total Other Financing Sources (Uses)	<u>620,665</u>	<u>(5,580)</u>	<u>(1,115,420)</u>	<u>(500,335)</u>
Net Change in Fund Balances	(171,770)	(145,040)	(264,365)	(581,175)
Fund Balances - Beginning	14,079,086	(4,557,544)	7,886,434	17,407,976
Fund Balances - Ending	<u>\$ 13,907,316</u>	<u>\$ (4,702,584)</u>	<u>\$ 7,622,069</u>	<u>\$ 16,826,801</u>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2017

Net Change in Fund Balances - Total Governmental Fund Balances **\$ (581,175)**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents the net amount of depreciation expense in excess of capital outlay. The amounts are represented here as reconciling items:

Capital outlays	7,776,740
Depreciation expense	<u>(4,952,563)</u>

Net effect of reporting capital assets 2,824,177

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:

Amortization of deferred charges	(252,651)
Amortization of bond premiums	221,792
Issuance of refunding bonds	(5,706,400)
Premiums on refunding bonds	(745,659)
Deferred Charges on refunding bonds	86,391
Payments to refunding escrow agent	6,365,668
Proceeds from capital lease obligations	(575,000)
Repayments of capital lease obligations	204,365
Repayments of bonds and notes	<u>5,646,021</u>

Net effect of reporting long-term debt 5,244,527

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements.

Net change in deferred revenue	(604,228)
Net change in allowance for uncollectible accounts	<u>(15,500)</u>

Net effect of recognition of revenue (619,728)

Certain deferred inflows outflows of resources are recognized on the government-wide basis to be amortized over future periods

Net difference between projected and actual pension earnings	(180,828)
Changes in proportion and differences between employer contributions	141,115
Net difference between expectations and actual results	(250,252)
Changes in pension assumptions	<u>1,159,414</u>

Net effect of pension deferred inflows and outflows 869,449

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

Net change in accrued interest expense	<u>(45,700)</u>
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Net effect of interest accrual (45,700)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Estimated landfill post closure monitoring	25,000
Compensated absences	(2,000)
Net other postemployment benefits	(380,545)
Net pension liability	<u>(2,203,591)</u>

Net effect of reporting long-term liabilities (2,561,136)

Change in Net Position of Governmental Activities **\$ 5,130,414**

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Activities	Total
Assets			
Cash and cash equivalents	\$ 4,419,989	\$ 259,529	\$ 4,679,518
Receivables, net of allowance for uncollectibles	794,561	-	794,561
Capital assets, net of depreciation	16,792,741	2,225,000	19,017,741
Total Assets	22,007,291	2,484,529	24,491,820
Deferred Outflows of Resources			
Net difference between projected and actual pension earnings	181,000	-	181,000
Changes in proportion and differences between pension contributions	24,000	-	24,000
Changes in pension assumptions	189,000	-	189,000
Deferred charges on bond issuances	31,334	5,289	36,623
Total Deferred Outflows of Resources	425,334	5,289	430,623
Liabilities			
Current liabilities:			
Warrants and salaries payable	855,082	1,200	856,282
Accrued interest	38,807	4,338	43,145
Noncurrent liabilities:			
Due in one year or less	579,500	145,000	724,500
Due in more than one year	7,111,500	287,000	7,398,500
Total Liabilities	8,584,889	437,538	9,022,427
Deferred Inflows of Resources			
Net difference between projected and actual pension earnings	55,000	-	55,000
Changes in pension expectations and actual experiences	41,000	-	41,000
Unamortized bond premiums	184,096	10,453	194,549
Total Deferred Inflows of Resources	280,096	10,453	290,549
Net Position			
Net investment in capital assets	12,286,141	1,793,000	14,079,141
Unrestricted	1,281,499	248,827	1,530,326
Total Net Position	\$ 13,567,640	\$ 2,041,827	\$ 15,609,467

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
JUNE 30, 2017

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Activities	Total
Operating revenues			
Charges for services, departmental and other	\$ 3,021,783	\$ 35,675	\$ 3,057,458
Fines and forfeitures	30,924	-	30,924
Total operating revenues	<u>3,052,707</u>	<u>35,675</u>	<u>3,088,382</u>
Operating expenses			
Salaries and wages	636,817	-	636,817
Operating expenses	1,771,572	12,000	1,783,572
Depreciation	771,795	-	771,795
Total operating expenses	<u>3,180,184</u>	<u>12,000</u>	<u>3,192,184</u>
Operating income (loss)	(127,477)	23,675	(103,802)
Non operating revenues			
Water tower lease	296,810	-	296,810
Interest expense	(303,734)	(28,220)	(331,954)
Total non operating revenue (expenses), net	<u>(6,924)</u>	<u>(28,220)</u>	<u>(35,144)</u>
Transfers			
Transfers in from other funds	400,000	169,479	569,479
Total transfers, net	<u>400,000</u>	<u>169,479</u>	<u>569,479</u>
Change in net position	265,599	164,934	430,533
Net position at beginning of year	13,302,041	1,876,893	15,178,934
Net position at end of year	<u><u>\$ 13,567,640</u></u>	<u><u>\$ 2,041,827</u></u>	<u><u>\$ 15,609,467</u></u>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 JUNE 30, 2017

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Activities	Total
Cash flows from operating activities			
Receipts from customers and users	\$ 2,995,045	\$ 35,675	\$ 3,030,720
Payments to vendors	(987,295)	(12,600)	(999,895)
Payments to employees, including fringe benefits	(421,017)	-	(421,017)
Net cash provided by (used for) operating activities	1,586,733	23,075	1,609,808
Cash flows from noncapital financing activities			
Transfer in from General Fund	400,000	174,363	574,363
Water tower lease	296,810	-	296,810
Net cash provided by (used for) noncapital financing activities	696,810	174,363	871,173
Cash flows from capital and related financing activities			
Payments of long-term debt principal	(662,606)	(145,000)	(807,606)
Payments of interest costs	(255,959)	(29,362)	(285,321)
Net cash provided by (used for) capital and related financing activities	(918,565)	(174,362)	(1,092,927)
Cash flows from investing activities			
Purchase of capital assets	(1,544,048)	-	(1,544,048)
Net cash provided by (used for) investing activities	(1,544,048)	-	(1,544,048)
Net change in cash and cash equivalents	(179,070)	23,076	(155,994)
Cash and cash equivalents at beginning of year	4,599,059	236,453	4,835,512
Cash and cash equivalents at end of year	\$ 4,419,989	\$ 259,529	\$ 4,679,518
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ (127,477)	\$ 23,675	\$ (103,802)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	771,795	-	771,795
Changes in assets and liabilities:			
User fees receivable, net of allowance for uncollectibles	\$ (57,662)	\$ -	(57,662)
Warrants payable	784,277	(600)	783,677
Accrued compensated absences	(1,200)	-	(1,200)
Pension deferred inflows/outflows	(141,000)	-	(141,000)
Net pension liability	358,000	-	358,000
Total adjustments	942,415	(600)	1,082,815
Net cash provide by (used for) operating activities	\$ 1,586,733	\$ 23,075	\$ 1,609,808

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2017

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund	Agency Funds
Assets			
Cash and cash equivalents	\$ 3,218	\$ 190	\$ 237,009
Investments		627,918	424,705
Receivables	-	-	52,668
Total Assets	<u>3,218</u>	<u>628,108</u>	<u>714,382</u>
Liabilities			
Warrants and other payables	-	-	2,089
Agency payables	-	-	712,293
Total Liabilities	<u>-</u>	<u>-</u>	<u>714,382</u>
Net Position			
Held in trust	3,218	628,108	-
Total Net Position	<u>\$ 3,218</u>	<u>\$ 628,108</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund
Additions		
Interest and dividends	\$ 49	\$ 47,741
Total Additions	<u>49</u>	<u>47,741</u>
Transfers in	<u>-</u>	<u>-</u>
Change in net position	49	47,741
Net position at beginning of year	3,169	580,367
Net position at end of year	<u>\$ 3,218</u>	<u>\$ 628,108</u>

See accompanying notes to basic financial statements.

NOTES TO FINANCIAL STATEMENTS

TOWN OF CHATHAM, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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, Inc. (the Library), a not-for-profit organization, as a Discretely Presented Component Unit because it is fiscally dependent on the Town and because the nature and significance of this 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 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 and 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 significant joint ventures, their purpose, and the annual assessment paid by the Town. Financial statements may be obtained from each of the joint ventures by contacting them directly. The Town does not have an equity interest in joint ventures.

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY2017 Payments</u>
Cape Cod Municipal Health Group c/o Group Benefit Strategies 27 Midstate Office Park Auburn, MA 01501	To provide employee insurance benefits	\$ 2,259,692
Cape Cod Regional Technical High School Route 124 Harwich, MA 02645	To provide vocational education to students 9-12 grade	\$ 210,206

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY2017 Payments</u>
Monomoy Regional School District 81 Oak Street Harwich, MA 02645	To provide education to students K-12	\$ 8,643,094
Cape Cod Regional Transit Authority 585 Main Street Dennis, MA 02638	To provide regional transportation	\$ 16,558
District Dept. of Veteran Services PO Box 429 Hyannis, MA 02601	To provide service to veterans	\$ 44,854
Pleasant Bay Resource Management Alliance 220 Sandwich Road Bourne, MA 02532	To protect the vast natural resources of Pleasant Bay	\$ 32,900

Related Organizations

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). The more significant accounting policies in GAAP and used by the Town are 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 Position 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 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 position is reported in three parts--net investment in capital assets; restricted net position; and unrestricted net position. 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. Certain costs, such as property and liability insurance, employee fringe benefit costs and 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 position 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:

Major Funds

- General fund is the primary operating fund of the Town. It is used to account for all the financial resources, except those required to be reported for in another fund.
- Wastewater Facility is a capital projects fund used to account for and report construction of the Town's wastewater facility and related infrastructure

Other governmental funds consist of other special revenue, capital projects, and permanent funds that are aggregated and presented in the other governmental funds column of the governmental funds financial statements. The following described the general use of these funds types:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific 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, including the acquisition or construction of capital facilities and other capital assets. It excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. Currently, the Town has determined the capital project funds are to account for and report capital assets to be financed through the issuance of long term debt.
- 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 position, 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:

- 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 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 position and changes in net position and is reported using accounting principles similar to propriety funds. The following is a description of the fiduciary finds 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.
- Other Post-Employment Benefit trust fund accounts for resources legally held in trust for providing health insurance benefits to retired employees of the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements. This fund was established pursuant to a Town Meeting vote in accordance with provisions of MGL Chapter 32B, section 20 which allows for the establishment of a trust fund for other post-employment benefits. Current the Town contributes the amount appropriated on an annual basis directly from the general fund.

- 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. Government Accounting Standards set forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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 Facility Project, and the Fire Station Project. 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 are met.

The 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 judgements 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 are 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 grand requirements are met.

C. Cash, Cash Equivalents and Investments

For the purpose of the Statement of Net Position, “cash and cash equivalents” include all demand savings accounts 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 Position.

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, motor vehicle and boat excise three years or more 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 funds operations or proprietary fund operations and whether they are reported in the government- wide or fund financial statements.

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 fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. 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 | 20-50 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. Deferred Outflows and Deferred Inflows

Deferred outflows of resources, as applicable, represent a consumption of assets by the government that is applicable to a future reporting period. These *deferred outflows of resources* have a positive effect on net position and are reported after assets, when applicable. Deferred inflows of resources, as applicable, represent the acquisition of assets by the government that is applicable to a future reporting period. These *deferred inflows of resources* have a negative effect on net position and are reported after liabilities, when applicable. These amounts are reported in government-wide and fund financial statements based upon the nature of the items.

H. 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, post closure monitoring costs for municipal landfills, net OPEB obligations, and net pension obligations.

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.

I. 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.

J. Equity Classifications

Government- wide Statements

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

- Net investment in capital assets- 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.

Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

- Restricted net position- Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets. These assets may be restricted by 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 position- Represents the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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 purpose 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 balances- consists of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of Town Meeting.
- Assigned fund balance- consists 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.

K. 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.

L. 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 for the fiscal year are based on values assessed as of each January 1 and are 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 public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund and enterprise fund functions are budgeted; the town does not have legally adopted annual budgets for its special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies. Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America ("GAAP"). A comparison of the budget to actual amounts on a "budgetary basis" is provided as required supplementary information to provide a meaningful comparison with the budget.

C. Fund Equities

Operations of the various Town funds for the fiscal year were funded in accordance with the General Laws of Massachusetts. The Town classifies fund equity in the fund financial statements as either non- spendable, restricted, committed, or assigned for specific purposes. The residual is reported as unassigned fund balance.

As of June 30, 2017, the classification of the Town's fund balances can be detailed as follows:

	General Fund	Wastewater Facility	Nonmajor Governmental Funds	Total
Nonspendable:				
Nonexpendable trust funds	\$ -	\$ -	\$ 839,742	\$ 839,742
Restricted:				
General government	-	-	3,655,859	3,655,859
Public safety	-	-	482,837	482,837
Education	-	-	372,586	372,586
Public works	-	-	69,486	69,486
Health and human services	-	-	45,049	45,049
Culture and recreation	-	-	158,187	158,187
Coastal resources	-	-	284,235	284,235
Debt service	1,165,169	-	-	1,165,169
Assigned:				
General government	45,089	-	-	45,089
Community planning and dev.	8,791	-	-	8,791
Coastal resources	63	-	-	63
Subsequent year budget	2,355,500	-	-	2,355,500
Committed:				
General government	943,401	-	1,747,012	2,690,413
Public safety	260,763	-	-	260,763
Public works	2,283,948	-	-	2,283,948
Community planning and dev	105,994	-	-	105,994
Health and human services	335,348	-	-	335,348
Culture and recreation	56,792	-	13,574	70,366
Coastal resources	536,015	-	495,483	1,031,498
Unassigned	5,810,445	(4,702,584)	(541,980)	565,881
	<u>\$ 13,907,316</u>	<u>\$ (4,702,584)</u>	<u>\$ 7,622,069</u>	<u>\$ 16,826,801</u>

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, 2017, the Town maintained a balance of \$1,886,910 in its stabilization fund.

The wastewater facility and other governmental funds reported deficits related to bond anticipation not borrowings for the capital projects and reimbursement grant funding not yet received. In addition, the general fund unassigned fund balance included a deficit of \$23,650 for snow and ice spending in excess of available appropriation.

D. Restricted Net Position

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

Restricted net position on the government-wide statement of net position consists of the following:

Capital project funds	\$	351,500
Special revenue funds:		
Community preservation fund		2,371,106
Land bank fund		1,522,431
Other special revenue funds		3,013,377
Permanent funds:		
Expendable		108,227
Non-expendable		839,742
	\$	<u>8,206,382</u>

Note 4: Cash, Cash Equivalents, 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 certain certifications 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 maturity from date of purchase or 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 the 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. OPEB funds are invested in accordance with MGL Chapter 203c. 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, 2017, deposits totaled \$17,559,254 and had a carrying amount of \$16,899,090. Of the deposit amount, \$666,162 was exposed to custodial credit risk at June 30, 2017 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts primarily represents outstanding checks and deposits in transit.

At June 30, 2017, the carrying amount of deposits for the Component Unit totaled \$145,233. The total bank balance was covered by Federal Depository Insurance.

The Town's investments are as follows:

Governmental Activities

Investment Type	Fair Market Value	12 Months or Less	1 to 5 Years	6 to 10 Years	Not Applicable
U.S. Treasury Notes	\$1,395,003	\$ -	\$ 1,395,003	\$ -	\$ -
Common Stock	875,424				875,424
MMDT	2,891,439				2,891,439
Money Market Securities	184,914				184,914
Certificates of Deposit	935,552		935,552		
Mutual Funds	199,536				199,536
Corporate Bonds	614,228	243,801	370,427		
Total	\$ 7,096,096	\$ 243,801	\$ 2,700,982	\$ -	\$ 4,151,313

Fiduciary Activities

Investment Type	Fair Market Value	12 Months or Less	1 to 5 Years	6 to 10 Years	Not Applicable
U.S. Treasury Notes	\$ 149,272	\$ -	\$ 149,272	\$ -	
Common Stock	535,574				535,574
Money Market Securities	22,129				22,129
Certificates of Deposit	100,108		100,108		
Mutual Funds	179,815				179,815
Corporate Bonds	65,725	26,088	39,637		
Total	\$ 1,052,623	\$ 26,088	\$ 289,017	\$ -	\$ 737,518

Governmental Activities

Investment Type	Fair Market Value (Level 1)	AA+	A to BBB	Not Rated
U.S. Treasury Notes	\$ 1,395,003	\$ 1,395,003	\$ -	\$ -
Common Stock	875,424			875,424
MMDT	2,891,439			2,891,439
Money Market Securities	184,914			184,914
Certificates of Deposit	935,552			935,552
Mutual Funds	199,536			199,536
Corporate Bonds	614,228		614,228	
Total	\$ 7,096,096	\$ 1,395,003	\$ 614,228	\$ 5,086,865

Fiduciary Activities

Investment Type	Fair Market Value (Level 1)	AA+	A to BBB	Not Rated
U.S. Treasury Notes	\$ 149,272	\$ 149,272	\$ -	\$ -
Common Stock	535,574			535,574
Money Market Securities	22,129			22,129
Certificates of Deposit	100,108			100,108
Mutual Funds	179,815			179,815
Corporate Bonds	65,725		65,725	
Total	\$ 1,052,623	\$ 149,272	\$ 65,725	\$ 837,626

The Component Unit’s investments are as follows:

<u>Investment Type</u>	<u>Fair Market Value (Level 1)</u>	<u>Rating</u>	<u>Maturity</u>
Cash held for investment	790,643	N/A	N/A
Bonds	1,071,734	Not provided	Not provided
Mutual Funds	<u>3,884,472</u>	N/A	N/A
Total component unit	<u>\$ 5,746,849</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 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. The Town’s certificated of deposit are covered by FDIC insurance limits.

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.

Note 5: Receivables

The Town reports the aggregate amount of receivables in the accompanying Statement of Net Position 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 current the 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 Position.

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:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 933,386	\$ (116,000)	\$ 817,386
Tax liens, deferrals and foreclosures	565,317	-	565,317
Motor vehicle and other excise	311,519	(212,300)	99,219
Departmental and other	276,759	(54,500)	222,259
Betterments and special assessments	501,712	-	501,712
Intergovernmental:			
School building assistance - due in future year	957,028	-	957,028
State highway awards - Chapter 90	2,863,298	-	2,863,298
Total	<u>\$ 6,409,019</u>	<u>\$ (382,800)</u>	<u>\$ 6,026,219</u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water rates and charges	\$ 232,661	\$	\$ 232,661
Unbilled water rates	586,500		586,500
Allowance for uncollectible		(24,600)	(24,600)
Totals	<u>\$ 819,161</u>	<u>\$ (24,600)</u>	<u>\$ 794,561</u>

Note 6. Other Receivables

The Massachusetts Clean Water Trust ("MCWT") interim note dated June 5, 2014 for \$24,240,000 (Note 11) was issued for the wastewater treatment facility project. The funds for borrowing will be disbursed to the Town as reimbursements for the project. The note receivable is \$21,467,451 as of June 30, 2017.

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 31,704,494	\$ 1,420,000	\$ -	\$ 33,124,494
Construction in Process	<u>4,227,945</u>	<u>2,396,130</u>	-	<u>6,624,075</u>
Total capital assets not being depreciated	<u>35,932,439</u>	<u>3,816,130</u>	-	<u>39,748,569</u>

Capital assets being depreciated:				
Buildings and improvements	137,985,183	150,280	-	138,135,463
Improvements other than buildings	13,939,228	1,985,970	-	15,925,198
Machinery, equipment & vehicles	8,206,224	1,749,697	(149,225)	9,806,696
Infrastructure	20,713,522	74,663	-	20,788,185
Total capital assets being depreciated	180,844,157	3,960,610	(149,225)	184,655,542
Less accumulated depreciation for:				
Buildings and improvements	(30,272,260)	(3,435,065)	-	(33,707,325)
Improvements other than buildings	(8,763,278)	(534,474)	-	(9,297,752)
Machinery, equipment & vehicles	(5,859,443)	(623,375)	149,225	(6,333,593)
Infrastructure	(12,403,642)	(359,649)	-	(12,763,291)
Total accumulated depreciation	(57,298,623)	(4,952,563)	149,225	(62,101,961)
Governmental activities capital assets, net	<u>\$ 159,477,973</u>	<u>\$ 2,824,177</u>	<u>\$ -</u>	<u>\$ 162,302,150</u>

Business-type Activities:

Water Activities

Capital assets not being depreciated:				
Land	\$ 938,433	\$ -	\$ -	\$ 938,433
Construction in Process	666,222	1,392,738	-	2,058,960
Total capital assets not being depreciated	1,604,655	1,392,738.00	-	2,997,393

Capital assets being depreciated:				
Buildings and improvements	1,505,141	-	-	1,505,141
Improvements other than buildings	687,423	-	-	687,423
Machinery, equipment & vehicles	244,657	-	-	244,657
Infrastructure	33,767,992	151,310	-	33,919,302
Total capital assets being depreciated	36,205,213	151,310	-	36,356,523

Less accumulated depreciation for:				
Buildings and improvements	(442,847)	(55,779)	-	(498,626)
Improvements other than buildings	(203,231)	(34,669)	-	(237,900)
Machinery, equipment & vehicles	(116,496)	(26,382)	-	(142,878)
Infrastructure	(21,008,127)	(673,644)	-	(21,681,771)
Total accumulated depreciation	(21,770,701)	(790,474)	-	(22,561,175)

Water activities capital assets, net	<u>\$ 16,039,167</u>	<u>\$ 753,574</u>	<u>\$ -</u>	<u>\$ 16,792,741</u>
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Waste Water Activities

Capital assets not being depreciated:				
Land	\$ 2,225,000	\$ -	\$ -	\$ 2,225,000
Waste Wood activities capital assets, net	2,225,000	-	-	2,225,000

Business-type activities capital assets, net	<u>\$ 18,264,167</u>	<u>\$ 753,574</u>	<u>\$ -</u>	<u>\$ 19,017,741</u>
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Component unit activities:

Capital assets being depreciated:

Equipment and furniture	\$ 397,830	\$ 2,736	\$ -	\$ 400,566
Less accumulated depreciation for:				
Equipment and furniture	<u>(355,261)</u>	<u>(10,318)</u>	<u>-</u>	<u>(365,579)</u>
Component unit activities capital assets, net	<u>\$ 42,569</u>	<u>\$ (7,582)</u>	<u>\$ -</u>	<u>\$ 34,987</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 189,267
Public safety	877,637
Education	596,403
Public works	2,603,048
Health and human services	15,777
Culture and recreation	389,527
Coastal resources	280,904
Total Governmental Activities	<u>\$ 4,952,563</u>

Business-type Activities:

Water/Total	<u>\$ 790,474</u>
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Component unit Activities:

Eldredge Public Library/Total	<u>\$ 10,318</u>
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Note 8: Interfund Balances and Activity

The general fund was due, \$3,469,963, from the Wastewater Facility fund at June 30, 2017.

Interfund transfers for the fiscal year ended June 30, 2017, consisted of the following:

Transfers Out	Transfers In				Total	
	General Fund	Nonmajor Governmental Funds	Business-type Water Activities	Business-type Wood Waste Activities		
General Fund	\$ -	\$ 40,500	\$ 400,000	\$ 169,479	\$ 609,979	(1)
Wastewater Facility		5,580			5,580	(2)
Nonmajor Governmental Funds	<u>1,161,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,161,500</u>	(3)
Total	<u>\$ 1,161,500</u>	<u>\$ 46,080</u>	<u>\$ 400,000</u>	<u>\$ 169,479</u>	<u>\$ 1,777,059</u>	

(1) Transfer to provide funding for: Pleasant Bay Alliance, Cultural Council, Water operations and Wood Waste debt service

(2) Transfers to reclassify activity between capital project funds

(3) Transfers to general fund to supplement operating budgets

Note 9: Long-Term Obligations

Long-term debt

The Following is a summary of changes in long-term obligations for the year ended June 30, 2017:

<u>Purpose</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities:					
MCWT Septic betterment subsidized bond, 3.98%, matures 2023	\$ 54,366	\$ -	\$ 10,829)	\$ 43,537	\$ 10,829
Municipal purposes-refunding, 3.98%, due 2019	165,000		(55,000)	110,000	55,000
Municipal purposes-refunding, 2.5 – 5.0%, due 2016	339,894		(339,894)	-	-
Municipal purposes 3.75% - 4.1%, due 2025	1,740,000		(1,740,000)	-	-
Municipal purposes, subsidized, due 2026	25,000		(2,500)	22,500	2,500
Municipal purposes-refunding, 3.0 – 5.0%, due 2019	2,655,000		(1,045,000)	1,610,000	1,045,000
Municipal purposes 3.0% - 5.0%, due 2028	7,080,000		(5,420,000)	1,660,000	860,000
Municipal purposes 3.0% - 5.0%, due 2038	9,880,000		(440,000)	9,440,000	440,000
MCWT Wastewater Treatment Facility, 2.0%, due 2028	2,586,112		(149,325)	2,436,787	152,342
Municipal Purposes, 2.0% - 5.0%, due 2037	17,380,000		(1,000,000)	16,380,000	935,000
Municipal Purposes-refunding 2.0% - 4.0%, due 8/1/2028		5,706,400		5,706,400	303,000
USDA Sewer Bond, 2.75%, due 2049	19,251,968		(583,393)	18,668,575	583,393
USDA Sewer Bond, 2.75%, due 2049	1,572,812		(47,662)	1,525,150	47,662
MCWT Wastewater Treatment Facility, 2.0%, due 2032	6,586,531		(324,414)	6,262,117	331,465
MCWT Wastewater Treatment Facility, 0.0%, due 2033	1,859,256		(108,617)	1,750,639	108,718
MCWT Wastewater Treatment Facility, 0.0%, due 2035	3,658,189		(189,948)	3,468,241	190,233
MCWT Wastewater Treatment Facility, 0.0%, due 2036	<u>3,336,119</u>		<u>(164,439)</u>	<u>3,171,680</u>	<u>164,687</u>
Total bonds payable	78,170,247	5,706,400	(11,621,021)	72,255,626	5,229,829
Capital lease obligations	204,365	575,000	(204,365)	575,000	189,363
Landfill closure and monitoring	200,000	-	(25,000)	175,000	25,000
Compensated absences	871,900	2,000		873,900	-
Other postemployment benefits	10,890,803	1,388,120	(1,007,575)	11,271,348	-
Net pension liability	<u>17,345,345</u>	<u>3,780,481</u>	<u>(1,576,890)</u>	<u>19,548,936</u>	<u>-</u>
Total Governmental Activities	<u>\$107,682,660</u>	<u>\$11,452,001</u>	<u>\$(14,434,851)</u>	<u>\$104,699,810</u>	<u>\$ 5,444,192</u>

Business-type Activities:Water Activities

Land Acquisition, 5.23%, due 2014	\$ 5,106	\$ -	\$ (5,106)	\$ -	\$ -
Municipal purposes-refunding, 3.98%, due 2021	230,000	-	(90,000)	140,000	30,000
Municipal purposes, 3.75% - 4.1%, due 2025	1,550,000	-	(1,550,000)	-	-
Municipal purposes, 4.25%, due 2049	412,500	-	(12,500)	400,000	12,500
Municipal purposes, 3.0% - 5.0%, due 2028	375,000	-	(315,000)	60,000	30,000
Municipal purposes - refunding, 3.0% - 5.0%, due 2019	150,000	-	(50,000)	100,000	50,000
Municipal Purposes-refunding 2.0% - 4.0%, due 2028		1,541,600		1,541,600	142,000
Municipal purposes, 2.0% - 5.0%, due 2032	1,185,000	-	(80,000)	1,105,000	80,000
Municipal purposes, 3.0% - 5.0%, due 2038	<u>1,395,000</u>	<u>-</u>	<u>(235,000)</u>	<u>1,160,000</u>	<u>235,000</u>
Total bonds payable	5,302,606	1,541,600	(2,337,606)	4,506,600	579,500
Compensated absences	3,600		(1,200)	2,400	-
Net pension liability	<u>2,824,000</u>	<u>615,000</u>	<u>(257,000)</u>	<u>3,182,000</u>	<u>-</u>
Total Water Activities	<u>\$ 8,130,206</u>	<u>\$ 2,156,600</u>	<u>\$ (2,595,806)</u>	<u>\$ 7,691,000</u>	<u>\$ 579,500</u>

Wood Waste Activities

Municipal Purposes-refunding 2.0% - 4.0%, due 2028	\$ -	\$ 142,000	\$ -	\$ 142,000	\$ -
Land Acquisition, 3.0% - 3.5%, due 2020	<u>580,000</u>	<u>-</u>	<u>(290,000)</u>	<u>290,000</u>	<u>145,000</u>
Total bonds payable	<u>580,000</u>	<u>142,000</u>	<u>(290,000)</u>	<u>432,000</u>	<u>145,000</u>
Total Waste Wood Activities	<u>\$ 580,000</u>	<u>\$ 142,000</u>	<u>\$ (290,000)</u>	<u>\$ 432,000</u>	<u>\$ 145,000</u>
Total Business-Type Activities	<u>\$ 8,710,206</u>	<u>\$ 2,298,600</u>	<u>\$ (2,885,806)</u>	<u>\$ 8,123,000</u>	<u>\$ 724,500</u>

Component Unit:

Compensated absences	<u>\$ 20,167</u>	<u>\$ 6,433</u>	<u>\$ -</u>	<u>\$ 26,600</u>	<u>\$ -</u>
Total Component Unit	<u>\$ 20,167</u>	<u>\$ 6,433</u>	<u>\$ -</u>	<u>\$ 26,600</u>	<u>\$ -</u>

Outstanding Massachusetts Clean Water Trust ("MCWT") 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 MCWT (and MCWT available earnings). These payments are recorded as revenue and expenses in the accompanying entity-wide information because it is not part of the local budget.

Refunding Transactions – On September 1, 2016, the Town issued general obligation bonds of \$7,390,000 (par value) with variable interest rates of between 2.0% - 4.0%; the proceeds of which were applied to current and advanced refundings of debt. General obligation bonds were issued at par value with a net reoffering premium of \$953,356; after discounts of \$22,335 and issuance costs of \$89,545 the net proceeds from the refunded debt issuance were \$8,231,476. Currently refunded bonds totaling \$2,810,000 had a variable interest rate between

3.75% and 4.10% with an original maturity date of August 1, 2028. Advanced refunded bonds totaling \$4,985,000 had a variable interest rate between 3.0% and 5.0% with an original maturity date of May 15, 2026. Advanced refunded bonds totaling \$4,355,000 had a variable interest rate between 4.0% and 5.0% with an original maturity date of July 15, 2028.

The net proceeds from the issuance of the general obligation bonds were used to purchase U.S government securities and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payment until the current refunding bonds were called on October 15, 2016 and until the advanced refunded term bonds are called on November 15, 2018. Both the current and advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's government-wide financial statements.

As a result of the refundings, the Town reduced its total debt service requirements by \$785,805. This defeasance resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$725,914.

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2017, including interest, are as follows:

Year Ending June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 5,229,829	\$ 2,485,066	\$ 7,714,895	\$ 724,500	\$ 209,679	\$ 934,179
2019	4,700,742	2,391,170	7,091,912	724,500	180,917	905,417
2020	4,059,373	2,243,384	6,302,757	672,000	131,300	803,300
2021	3,858,451	1,884,018	5,742,469	384,500	103,983	488,483
2022	3,588,983	1,580,856	5,169,839	379,500	87,584	467,084
2023-2027	16,966,358	6,145,043	23,111,401	1,405,600	230,506	1,636,106
2028-2032	14,346,495	4,009,024	18,355,519	435,500	85,231	520,731
2033-2037	10,762,771	2,103,972	12,866,743	62,500	38,944	101,444
2038-2042	4,325,275	921,246	5,246,521	62,500	42,438	104,938
2043-2047	3,155,275	433,846	3,589,121	62,500	-	62,500
2048-2049	1,262,074	52,060	1,314,134	25,000	-	25,000
Total	<u>\$ 72,255,626</u>	<u>\$ 24,249,685</u>	<u>\$ 96,505,311</u>	<u>\$4,938,600</u>	<u>\$ 1,110,582</u>	<u>\$ 6,049,182</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, 2017:

Project	Year Authorized	Amount
Water and well pumping station	2006	560,000
Road/sidewalk/bike path	2007	150,000
Ell Street and Sky Way improvements	2009	25,000
Mill pond wells	2012	650,000
Water main replacement	2012	720,000
Wastewater treatment facility	2013	761,233
Fire station design and construction	2014	16,635
Iron & manganese treatment facility	2014	5,533,000
Wastewater treatment facility	2014	3,040,000
Iron & manganese treatment facility	2016	3,500,000
365 Main Street	2017	2,500,000
Cleaning/painting water storage tank	2017	1,200,000
Wastewater collections facility	2017	31,000,000
Waterfront facilities	2017	11,355,000
Total Authorized and Unissued Debt		\$ 61,010,868

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, 2017.

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’s capital lease obligations outstanding as of June 30, 2017 are summarized below:

Lease	Balance 6/30/2017
Pumper	\$ 575,000
Total	\$ 575,000

The future minimum lease payments and present value of the minimum lease payments at June 30, 2017 are as follows:

Fiscal Year Ended June 30,	Amount
2018	\$ 189,363
2019	190,508
2020	195,129
Total minimum lease payments	\$ 575,000

Note 10. Deferred outflows and deferred inflows of resources

The following is a summary of the Town's deferred outflows of resources and deferred inflows of resources as of June 30, 2017:

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Governmental Activities:</i>				
Deferred outflows of resources:				
Net difference between projected and actual pension earnings	\$ 1,376,554	\$ -	\$ (265,458)	\$ 1,111,096
Changes in proportion and difference between employer contributions and proportionate share of pension contributions	9,057	141,115		150,172
Changes in pension assumptions		1,159,414		1,159,414
Deferred amount on bond refunding	28,244	477,059	(252,651)	252,652
Total deferred outflows of resources	<u>\$ 1,413,855</u>	<u>\$ 1,777,588</u>	<u>\$ (518,109)</u>	<u>\$ 2,673,334</u>
Deferred inflows of resources:				
Deferred revenue	\$ 2,517,176	\$ 346,122		\$ 2,863,298
Changes in proportion and difference between employer contributions and proportionate share of contributions	420,150		(84,630)	335,520
Net difference between expected and actual pension experience		250,252		250,252
Unamortized bond premiums	1,512,349	745,659	(221,792)	2,036,216
Total deferred inflows of resources	<u>\$ 4,449,675</u>	<u>\$ 1,342,033</u>	<u>\$ (306,422)</u>	<u>\$ 5,485,286</u>
<i>Business-type Activities:</i>				
Deferred outflows of resources:				
Net difference between projected and actual pension earnings	\$ 224,000		\$ (43,000)	\$ 181,000
Changes in proportion and difference between employer contributions and proportionate share of contributions	1,000	23,000		24,000
Changes in pension assumptions		189,000		189,000
Deferred amount on bond refunding	2,308	71,296	(36,981)	36,623
Total deferred outflows of resources	<u>\$ 227,308</u>	<u>\$ 283,296</u>	<u>\$ (79,981)</u>	<u>\$ 430,623</u>
Deferred inflows of resources:				
Changes in proportion and difference between employer contributions and proportionate share of contributions	\$ 68,000		\$ (13,000)	\$ 55,000
Net difference between expected and actual pension experience		41,000		41,000
Unamortized bond premiums	10,481	207,696	(23,628)	194,549
Total deferred inflows of resources	<u>\$ 78,481</u>	<u>\$ 248,696</u>	<u>\$ (36,628)</u>	<u>\$ 290,549</u>

Note 11: 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 and RANs),
- 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 appropriate funds.

Changes in the Town’s outstanding short- term debt at June 30, 2017 is as follows:

Type	Dated	Interest Rate	Maturity Date	Beginning Balance	Additions	Retirements	Ending Balance
BAN	06/24/16	0.90%	06/23/17	\$ 491,500	\$ -	\$ (491,500)	\$ -
BAN	06/23/17	1.25%	06/22/18		1,081,600		1,081,600
MCWT Interim Loan	06/05/14	2.00%	N/A		\$ 20,770,417		20,770,417
MCWT Interim Loan	N/A	N/A	N/A	1,435,011			1,435,011
Total Temporary Notes Payable				<u>\$1,926,511</u>	<u>\$ 21,852,017</u>	<u>\$ (491,500)</u>	<u>\$ 23,287,028</u>

Note 12: Employee Benefits

A. Retirement Benefits

Plan Description

The Barnstable County Retirement Association (the “Association” or “Plan”) is a multiple employer, cost sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Barnstable County Retirement Board (“the Board”), with the exception of school department employees who serve in a teaching capacity. The Town is a member of the Monomoy Regional School District. The pensions for these school employees are administered by the Commonwealth of Massachusetts’ Teachers Retirement System (“MTRS”). Accordingly, the District is responsible for the associated benefits. Membership in the Association is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. As of January 1, 2014, the Association had 50 participating employers.

The Association is a member of the Massachusetts Contributory Retirement System and is governed by the applicable provisions of Chapter 32 of the Massachusetts General Law (“M.G.L.”) and other applicable statutes. The Public Employee Retirement Administration Commission (“PERAC”) is the State Agency responsible for oversight of the Commonwealth’s public retirement systems. The Association is governed by a five member Board who establish the policies under which the Association operates. The Association has issued a publicly available financial report that includes audited financial statements and required supplementary information for the year ended December 31, 2016, which may be obtained by writing to the Association directly at the following address: Barnstable County Retirement Association, 750 Attucks Lane, Hyannis, MA 02601.

Benefits Provided:

The Association provides retirement, disability, survivor, and death benefits to plan members and their beneficiaries. Massachusetts General Laws ("M.G.L.") establish uniform benefit and contribution requirements for all contributory public employee retirement systems ("PERS"). Those requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of credible service, and group credible service and group classification. The authority for amending these provisions rests with the Legislature.

There are three classifications of membership in the retirement system: Group 1, Group 2, and Group 4. Group 1 consists of general public employees, which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Group 4 consists of mainly police officers and firefighters.

Any individual in Group 1 or Group 2, whose membership began before January 1, 1978 and who maintains an annuity savings fund account, is eligible to receive a superannuation retirement allowance at age 55 or older, regardless of the number of years of credible service.

Members in Group 1 and Group 2, hired after January 1, 1978 and prior to April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 20 years of service or upon completion of 10 years of service and upon reaching age 55.

Members in Group 1 and Group 2, hired after April 2, 2012, are eligible to receive a superannuation retirement allowance upon the completion of 10 years of service and upon reaching age 60 (Group 1) or age 55 (Group 2).

Governmental employers are required to pay an annual appropriation established by PERAC. The total appropriation includes the amount to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and an additional appropriation in accordance with adopted early retirement incentive programs. The total appropriations are payable July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discount rate of approximately 2%. The pension fund appropriations are allocated among employers based on covered payroll. The Town's statutorily required contribution for the year was \$1,833,890.

Pension liabilities, expenses, and deferred outflows of resources related to pensions:

The collective net pension liability of the Association was determined by an actuarial valuation as of January 1, 2014 (measurement date). The components of this valuation, as it pertains to the Town are summarized below at December 31, 2016 based upon the valuation date of January 1, 2014:

	<u>2016</u>
Total pension liability	\$ 1,644,743,371
Less: Plan fiduciary net position	<u>(942,162,721)</u>
Net pension liability	<u>\$ 702,580,650</u>

Plan fiduciary net position as a percentage of the total pension liability		57.3%
Total employer pension expense	\$	106,554,929
Town's proportionate share of the collective net pension liability	\$	22,730,936
Town's percentage share of the collective net pension liability		3.24%
Town's covered payroll	\$	8,565,497
Town's proportionate share of pension expense recognized	\$	3,447,424

The Town's proportionate share of collective net deferred outflows of resources of \$72,612,188, was \$2,132,910. This amount is to be recognized in future pension expense as follows:

Year ended June 30,		
2018	\$	575,545
2019		575,545
2020		567,724
2021		169,440
2022		244,656
	\$	<u>2,132,910</u>

Actuarial Assumptions:

Valuation Date:	January 1, 2014
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Payments increase at 4.0%, except for 2010 Early Retirement Incentive, which is at a level payment.
Inflation Rate:	4.0%
Asset Valuation Method:	Sum of actuarial value at beginning of year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of the market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value.
Projected Salary Increases:	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.5% for Group 2, and 4.75% for Group 4.
Cost of Living Adjustments:	3.0% of the first \$15,000 of retirement income.
Mortality Rates:	
Pre-retirement:	The RP-2000 Employee Mortality Table projected generationally with Scale AA from 2010.
Healthy Retiree:	The RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale AA from 2010.

Disabled Retiree: The RP-2000 Healthy Annuitant Mortality Table set forward three years for males only projected generationally using Scale AA from 2010.

The pension plan’s policy in regards to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate rates of expected future real rates of return (expected returns, net pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rates of return by weighing the expected future real rates of return by the target asset allocation percentage and by addition expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	18%	6.4%
International developed markets equity	16%	7.4%
International emerging markets equity	6%	9.4%
Core fixed income	13%	2.0%
High-yield fixed income	10%	4.4%
Real estate	10%	5.0%
Commodities	4%	4.4%
Hedge funds	13%	3.8%
Private equity	10%	10.5%
Total	<u>100%</u>	

Discount Rate:

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

Sensitivity Analysis:

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the Plan’s and the Town’s proportionate share of the collective net pension liability assuming it was calculated using a single discount rate that is one percentage-point lower or one-percentage-point higher than the current discount rate at December 31, 2016:

	1.0% Decrease to 6.625%	Current Discount Rate 7.625%	1% Increase to 8.625%
BCRA - Total Plan	\$ 894,041,463	\$ 702,580,650	\$ 541,092,898
Town's proportionate share	\$ 28,925,362	\$ 22,730,936	\$ 17,506,244

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 bylaws 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 Position 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 160 retirees and their dependents. The cost of retiree's healthcare benefits is recognized as an expenditure as premiums are paid.

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 (ARC)	\$	1,260,382
Interest on net OPEB obligation		632,756
Amortization of actuarial gains/losses		-
Adjustment to ARC		(505,018)
		<hr/>
Annual OPEB cost		1,388,120
Contributions made		(1,007,575)
		<hr/>
Increase in net OPEB obligation		380,545
Net OPEB obligation at beginning of year		10,890,803
Net OPEB obligation at end of year	\$	<u>11,271,348</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 1,388,120	72.6%	\$ 11,271,348
6/30/2016	\$ 1,373,380	69.6%	\$ 11,308,563
6/30/2015	\$ 1,317,825	69.8%	\$ 10,473,043

Funding Status and Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Asset (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 $[(b)-(a)]/c$
7/1/2016	\$ 422,237	\$ 17,248,759	\$16,826,522	2.45%	N/A	N/A

The unfunded actuarial liability was determined using a thirty-year open amortization basis increasing at 3.5%.

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: 7.0% per annum

Medical/Drug Cost Trend Rates: 10.5%, then 7.0% decreasing by 2.0% for 1 year and 0.5% for 6 years to an ultimate rate of 4.5% per year for participants under 65 years old.
1.9%, then 7.10% decreasing by 0.5% for 8 years to an ultimate rate of 4.5% per year for participants over 65 years old.

Dental Cost Trend Rate: None

General Inflation Assumption: 3.5% per annum

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortization payments increasing at 3.5% over 30 years

Note 13: 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, 2017, \$175,000 has been reported on the Town's statement of net position as an estimated remaining liability for post-closure monitoring costs of the landfill. The current portion of the landfill closure is \$25,000. Actual costs may change due to the finalizing of regulations with regulatory authorities, changing technology, and inflation.

Note 14: 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 (65% Town and 35% Employee after the ratification date of each contract). The Town budgets, annually, in the general fund for its estimated share of contributions.

Note 15: 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 16: Monomoy Regional School District

July 1, 2012 was the official start date for the Monomoy Regional School District (the District), comprised of the Town of Harwich and the Town of Chatham. The District was formed by votes of the member towns in December 2010, in accordance with Massachusetts General Law. The District is to provide education to the member towns' students grade K-12. The District's operating, capital, transportation and debt service budgets are assessed to the members based upon the Regional Agreement, dated January 19, 2011. Pursuant to the regional agreement and MGL all district assessments must be accepted by each Town's Town Meeting on an annual basis.

The Regional District School Committee operates under the provisions of Chapter 71, Section 16A and other applicable MGL. Due to the disparity in the population of the member towns, the Committee operates under a "weighted voting" methodology, whereas the four (4) committee members from Town of Harwich have one full voice on all matters for a total of (6) six votes.

Pursuant to the regionalization agreement, the Town maintains ownership of its current school buildings and grounds and shall lease these to the District for the sum of one dollar a year for a term up to twenty (20) years with additional extensions possible at the discretion of the Regional District School Committee. At the point these buildings and grounds are no longer needed by the District, per vote of the Regional District School Committee, custody and control will revert back to the town.

Note 17: Subsequent Events

Management has evaluated subsequent events through May 31, 2018, which is the date the financials statements were available to be issued.

Note 18: Implementation of GASB Pronouncements

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

Current pronouncements

The GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This pronouncement did not have a material effect on the Town.

The GASB issued Statement #77, *Tax Abatement Disclosures*, the pronouncement issues guidance regarding disclosures of any tax abatement agreements with parties which the government promises to forgo tax revenues for the promise of specific actions which contribute to economic development or otherwise benefits the government or its citizens. This pronouncement did not impact the basic financial statements for the Town.

The GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 are applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state of local governmental employer. This pronouncement did not impact the basic financial statements for the Town.

The GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. This pronouncement did not impact the basic financial statements for the Town.

The GASB issued Statement #82, *Pension Issues - An Amendment of GASB Statement No. 67, No. 68 and No. 73*. The pronouncement addresses certain classification, presentation and other issues raised with previous Statements addressing pension obligations. This pronouncement did not impact the basic financial statements for the Town.

Future pronouncements

The GASB issued Statement #75, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, which is required to be implemented in fiscal year 2018. The pronouncement replaces previously issued guidance and establishes new accounting and financial reporting requirements for governments whose employees are provided other post-employment benefits. The Town expects the implementation of the pronouncement to have a material effect on the financial statements.

The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2018. The pronouncement issues guidance improving accounting and financial reporting for these agreements which are used by donors to provide resources to two or more beneficiaries, including governments. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is generally required to be implemented in fiscal year 2019. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #84, *Fiduciary Activities*, which is generally required to be implemented in fiscal year 2020. The objective for this Statement is to improvement guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #85, *Omnibus 2017*, which is generally required to be implemented in fiscal year 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #86, *Certain Debt Extinguishments*, which is generally required to be implemented in fiscal year 2018. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #87, *Leases*, which is generally required to be implemented in fiscal year 2021. This Statement redefines the manner in which long-term leases are accounted and reported. The Town will evaluate the implementation of the pronouncement as applicable.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY BASIS - GENERAL FUND - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property taxes and payments in lieu	\$ 32,115,460	\$ 32,108,262	\$ 32,025,598	\$ (82,664)
Excise taxes	2,525,000	2,525,000	3,216,724	691,724
Licenses and permits	900,000	900,000	799,813	(100,187)
Penalties and interest	120,000	120,000	212,137	92,137
Investment earnings	20,000	20,000	3,882	(16,118)
Charges for services	1,850,000	1,850,000	2,094,872	244,872
Special assessments	40,000	40,000	82,212	42,212
Fees and fines	50,000	50,000	42,579	(7,421)
Departmental and other	877,525	877,525	1,408,030	530,505
Intergovernmental	<u>1,137,319</u>	<u>1,137,319</u>	<u>1,151,881</u>	<u>14,562</u>
Total revenues	39,635,304	39,628,106	41,037,728	1,409,622
Expenditures:				
General government	4,888,423	4,190,395	4,093,780	96,615
Public safety	6,616,058	6,623,882	6,584,987	38,895
Education	8,870,661	8,870,661	8,842,798	27,863
Public works	7,942,599	5,920,815	5,942,304	(21,489)
Community planning and development	913,634	798,849	745,841	53,008
Health & human services	963,474	595,226	574,430	20,796
Culture and recreation	1,201,225	1,151,331	1,146,263	5,068
Coastal resources	2,034,746	1,596,636	1,592,057	4,579
Employee benefits	5,022,733	4,722,733	4,401,472	321,261
State and county assessments	716,710	716,710	714,974	1,736
Debt service	<u>7,834,625</u>	<u>7,834,625</u>	<u>7,804,513</u>	<u>30,112</u>
Total expenditures	<u>47,004,888</u>	<u>43,021,863</u>	<u>42,443,419</u>	<u>578,444</u>
Revenues over (under) expenditures	(7,369,584)	(3,393,757)	(1,405,691)	831,178
Other financing sources (uses):				
Issuance of refunding bonds			5,706,400	5,706,400
Premiums from issuance of bonds			745,659	745,659
Discounts on issuance of bonds			(17,247)	(17,247)
Payments to refunding escrow agent			(6,365,668)	(6,365,668)
Transfers in	1,442,404	1,442,402	1,442,402	-
Transfers out	<u>(590,500)</u>	<u>(590,500)</u>	<u>(590,500)</u>	<u>-</u>
Total other financing sources (uses)	851,904	851,902	921,046	69,144
Revenues and other financing sources over (under) expenditures and other financing uses	(6,517,680)	(2,541,855)	<u>\$ (484,645)</u>	<u>\$ 900,322</u>
Fund balance, beginning of year				
Fund balance, end of year				
Other budget items:				
Free cash appropriations	2,900,000	3,493,180		
Prior year appropriation deficit	(103,771)	(103,771)		
Carryover encumbrances	3,571,451	(1,004,752)		
Release of overlay surplus	<u>150,000</u>	<u>157,198</u>		
Total other budget items	<u>6,517,680</u>	<u>2,541,855</u>		
Net budget	<u>\$ -</u>	<u>\$ -</u>		

See accompanying independent auditor's report.
See accompanying notes to required supplementary information.

TOWN OF CHATHAM, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY BASIS OF ACCOUNTING
YEAR ENDED JUNE 30, 2017

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

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The “actual” results column of the Budgetary Comparison Schedule—General Fund, are presented on a “budget basis” to provide a meaningful comparison with the budget. The main difference between the budget and GAAP basis is that all budgeted revenues are recorded when cash is received, except for the real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2017 are presented below:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 41,037,728
Stabilization investment income	\$ -	\$ 32,788	32,788
GAAP differences in property taxes	130,085	-	130,085
Revenues on a GAAP basis	<u>\$ 130,085</u>	<u>\$ 32,788</u>	<u>\$ 41,200,601</u>
Expenditures on a budgetary basis			\$ 42,443,419
Wood waste reclamation fund debt service payments	\$ (169,479)		(169,479)
Water fund budgeted allocation of overhead costs	(280,904)	-	(280,904)
Expenditures on a GAAP basis	<u>\$ (450,383)</u>	<u>\$ -</u>	<u>\$ 41,993,036</u>

See accompanying independent auditors' report.

TOWN OF CHATHAM, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OTHER POST-EMPLOYMENT BENEFITS PLAN

YEAR ENDED JUNE 30, 2017

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 3.5%.

Actuarial Valuation Date	Actuarial Value of Asset (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 $[(b)-(a)]/c$
6/30/2016	\$ 422,237	\$ 17,248,759	\$ 16,826,522	2.45%	N/A	N/A
6/30/2014	\$ 102,543	\$ 16,771,422	\$ 16,668,879	0.61%	N/A	N/A
6/30/2012	\$ -	\$ 16,559,085	\$ 16,559,085	0.00%	\$ 10,316,453	160.5%

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: 7.0% per annum

Medical/Drug Cost Trend Rates: 10.5%, then 7.0% decreasing by 2.0% for 1 year and 0.5% for 6 years to an ultimate rate of 4.5% per year for participants under 65 years old.
1.9%, then 7.10% decreasing by 0.5% for 8 years to an ultimate rate of 4.5% per year for participants over 65 years old.

Dental Cost Trend Rate: None

General Inflation Assumption: 3.5% per annum

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortization payments increasing at 3.5% over 30 years

See accompanying independent auditors' report.

TOWN OF CHATHAM, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN
YEAR ENDED JUNE 30, 2017

Barnstable County Retirement Association

The Barnstable County Retirement Association (the "Association") is a multiple-employer, costsharing, contributory defined benefit pension plan covering all eligible employees of the governmental member units, with the exception of school department employees who serve in a teaching capacity. Based upon the actuarial valuation date of the Association of January 1, 2014, the following is presented:

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Total pension liability	\$ 1,644,743,371	\$ 1,502,651,474	\$ 1,426,632,712
Less: Plan fiduciary net position	(942,162,721)	(873,002,091)	(862,069,290)
Net pension liability	<u>\$ 702,580,650</u>	<u>\$ 629,649,383</u>	<u>\$ 564,563,422</u>
Town's proportion of the net pension liability (asset)	3.24%	3.20%	3.31%
Town's proportionate share of the net pension liability (asset)	\$ 22,730,936	\$ 20,169,345	\$ 18,671,253
Town's proportionate share of pension expense	\$ 3,447,424	\$ 2,137,470	\$ 1,829,972
Town's covered-employee payroll	\$ 8,656,497	\$ 8,371,238	\$ 8,674,713
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	262.6%	240.9%	215.2%
Plan fiduciary net position as a percentage of the total pension liability	57.3%	58.1%	60.4%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO THE PENSION PLAN

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Actuarially determined contribution	\$ 1,833,890	\$ 1,729,864	\$ 1,734,970
Contributions in relation to the actuarially determined contribution	\$ 1,833,890	\$ 1,729,864	\$ 1,734,970
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 8,656,497	\$ 8,371,238	\$ 8,674,713
Contributions as a percentage of covered-employee payroll	21.19%	20.66%	20.00%

Note: This schedule is intended to present information for 10 years. Until a 10 year trend is compiled, information is presented for those years for which information is available.

See accompanying independent auditors' report.

TOWN OF CHATHAM, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - OTHER POST-EMPLOYMENT BENEFITS
 YEAR ENDED JUNE 30, 2017
 IN ACCORDANCE WITH GASB 74

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET OTHER POST-EMPLOYMENT BENEFIT LIABILITY

	June 30, 2017
Total OPEB Liability	
Service cost	\$ 480,254
Interest	987,774
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	(637,477)
Benefit payments	(857,575)
Net change in total OPEB liability	(27,024)
Total OPEB Liability - Beginning	17,869,720
Total OPEB Liability - Ending (a)	<u>\$ 17,842,696</u>
Plan fiduciary net position	
Contributions - employer	\$ 1,007,575
Net investment income	21,506
Benefit payments	(857,575)
Administrative expenses	-
Net change in fiduciary net position	171,506
Plan fiduciary net position - Beginning	422,237
Plan fiduciary net position - Ending (b)	<u>\$ 593,743</u>
Town's net OPEB Liability - ending (a)-(b)	<u>\$ 17,248,953</u>
Plan fiduciary net position as a percent of total OPEB liability	3.33%
Covered-employee payroll	N/A
Plan's net OPEB liability as a percentage of covered-employee payroll	N/A

SCHEDULE OF THE TOWN'S CONTRIBUTIONS

Actuarially determined contribution	\$ 1,260,382
Contributions in relation to the actuarially determined contribution	1,007,575
Contribution deficiency (excess)	<u>\$ 252,807</u>
Covered employee payroll	N/A
Contributions as a percentage of covered employee payroll	N/A

Note: This schedule is intended to present information for 10 years. Until a 10 year trend is compiled, information is presented for those years for which information is available.

See accompanying independent auditors' report.