

**TOWN OF CHATHAM, MASSACHUSETTS**  
BASIC FINANCIAL STATEMENTS AND  
MANAGEMENT DISCUSSION AND ANALYSIS  
WITH INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED JUNE 30, 2016

**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, 2016, 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, 2016. 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, 2016, 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.

### Auditor's 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, 2016, 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, 2016, 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 January 18, 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

January 18, 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, 2016, 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 January 18, 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. (2016-001 and 2016-002)

## **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

January 18, 2018

**TOWN OF CHATHAM, MASSACHUSETTS**  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2016

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**Material Weakness**

2016 – 001 Cash Reconciliations

*Condition:* Cash reconciliations were not completely timely and accurately throughout the year. There is an unidentified cash variance of approximately \$28,700 at the end of 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 2017. The Town will continue to work to identify the variance of \$28,000 that existed as of June 30, 2016.

**Material Weakness**

2016 – 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.

## **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, 2016 and 2015. 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 three are considered major funds (the general fund, the wastewater facility capital project, and the fire station 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.

<b>Net Position</b>		
	<b>Primary Government</b>	
	June 30, 2016	June 30, 2015
<b><u>Assets</u></b>		
Current and other assets	\$ 32,449,504	\$ 60,894,415
Capital assets, net	177,742,140	170,708,417
<b>Total assets</b>	<b>210,191,644</b>	<b>231,602,832</b>
<b>Deferred outflows of resources</b>	<b>1,641,163</b>	<b>77,802</b>
<b><u>Liabilities</u></b>		
Long-term liabilities	116,392,866	111,016,299
Other liabilities	4,613,452	35,591,520
<b>Total liabilities</b>	<b>121,006,318</b>	<b>146,607,819</b>
<b>Deferred inflows of resources</b>	<b>4,528,156</b>	<b>3,801,154</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	93,689,287	81,939,334
Restricted	7,463,137	4,553,641
Unrestricted	(14,854,091)	(5,221,314)
<b>Net Position</b>	<b>\$ 86,298,333</b>	<b>\$ 81,271,661</b>

The Town’s assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2016 and 2015 by \$82,298,333 and \$81,271,661 (presented as net position), respectively. Included in these amounts are unrestricted net position of \$ (14,854,091) and \$ (5,221,314), 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 \$93,689,287 and \$81,939,334 at June 30, 2016 and 2015, 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 \$5,026,672 and increased by \$4,403,547 during fiscal year 2016 and 2015, respectively.

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

<b>Change in Net Position</b>		
	<b>Governmental activities</b>	
	June 30, 2016	June 30, 2015
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services	\$ 4,469,116	\$ 5,249,067
Operating grants and contributions	992,260	913,269
Capital grants and contributions	532,938	339,561
General revenues:		
Property taxes	32,805,596	31,164,899
Excise taxes	3,056,075	2,852,403
Penalties and interest taxes	300,547	220,604
Grants and contributions not restricted to specific programs	138,739	133,917
Loss on disposal of assets	(53,341)	(30,958)
Investment income	221,000	72,163
Miscellaneous	115,985	943,002
<b>Total revenues</b>	<b>42,578,915</b>	<b>41,857,927</b>
<b><u>Expenses</u></b>		
General government	3,291,950	3,163,914
Public safety	6,846,257	7,237,023
Education	8,981,068	8,768,388
Public works	6,709,491	7,350,097
Community planning and development	878,189	650,592
Health and human services	676,489	677,749
Culture and recreation	1,470,299	1,410,375
Coastal resources	1,257,257	1,413,602
Employee benefits	4,697,630	4,410,417
Interest on long-term debt	2,008,015	1,831,475
State and county charges	694,402	669,675
<b>Total expenses</b>	<b>37,511,047</b>	<b>37,583,307</b>
Change in net position before transfers	5,067,868	4,274,620
<b>Transfers</b>	<b>(874,363)</b>	<b>(740,300)</b>
Change in net position	4,193,505	3,534,320
Net position, beginning of year	66,925,894	63,391,574
Net position, end of year	<b>\$ 71,119,399</b>	<b>\$ 66,925,894</b>

### **Total Revenues**

Total governmental activities revenues increased \$720,988 from 2015 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.

### **General Revenues**

Real Estate revenues were the Town's largest revenue source at \$32,806,596 and \$31,164,899, representing 89.7% and 90.03% of general revenues for 2016 and 2015, respectively. While the tax rates have slightly decreased, the assessed tax valuation base increased to \$6,203,316,460 in 2016 from \$5,949,396,990 in 2015. The increase of 4% is due to increasing property values.

### **Program Revenues**

Governmental charges for services were \$4,469,116 and \$5,249,067 representing a variety of departmental revenues for 2016 and 2015, respectively. The largest of portion relates to Public Works revenues of \$1,596,452 and \$2,317,440, for charges for services for the landfill and sewer for 2016 and 2015, respectively.

Governmental operating grants contributions of \$992,260 and \$913,269 represent several federal state grants restricted to specific grant conditions. This accounts for approximately 2.33% and 2.22% of the total Town governmental activities and revenues.

### **Expenses**

For fiscal year ended June 30, 2016 and 2015, expenses for governmental activities totaled \$37,511,047 and \$37,583,307. The total expenses were consistent with the prior year. There was a decrease in the public work expense due to decreased highway expenses from decreased paving various other changes in expenditures. The decrease was offset by a increases in the employee fringe benefits as a result of rising health care costs.

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

	<b>Change in Net Position</b>	
	<b>Business-type activities</b>	
<b>Revenues</b>	June 30, 2016	June 30, 2015
<b>Program revenues:</b>		
Charges for services	\$ 2,733,431	\$ 2,689,915
Fines and forfeitures	32,667	22,495
<b>Total operating revenues</b>	<b>2,766,098</b>	<b>2,712,410</b>
<b>Expenses:</b>		
Salaries, wages, and employee benefits	469,104	414,697
Expenses	1,292,192	1,413,906
Depreciation	787,816	779,658
<b>Total expenses</b>	<b>2,549,112</b>	<b>2,608,261</b>
<b>Total operating income</b>	<b>216,986</b>	<b>104,149</b>
<b>Non operating revenues (expenses):</b>		
Debt service	(302,737)	(152,285)
Water tower lease	344,555	327,063
Transfers in	574,363	590,300
<b>Total non operating revenue (expenses), net</b>	<b>616,181</b>	<b>765,078</b>
<b>Change in net position</b>	<b>833,167</b>	<b>869,227</b>
Net position, beginning of year	14,345,767	13,476,540
Net position, end of year	<u>\$ 15,178,934</u>	<u>\$ 14,345,767</u>

### ***Operating Revenues***

Total business-type activities operating revenues showed a modest increase of approximately \$54,000 from the prior year.

### ***Expenses***

Total business-type activities operating expenses showed a decrease of approximately \$59,000 from the prior year from utilities 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 \$17.4 million, a decrease of approximately \$3.5 million (due primarily to fire station construction expenses, financed in the prior year) 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 \$6.4 million, committed fund balance of \$5.6 million, assigned fund balance of \$3.1 million and an unassigned fund balance of \$1.5 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 \$14.1 million, an increase of \$2.8 million from the previous year. Of this amount \$1.3 million or 9% represents restricted fund balance. Committed fund balance of \$3.5 million and assigned fund balance of \$3.1 million represents 47.1% 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 15.2% and 16.3%, respectively, of total general fund expenditures and revenues. Total General Fund balance represents 34.7% and 37.2%, respectively, of the same amounts.

### **General Fund Budgetary Highlights**

The difference between the original expenditure budget of \$42.7 million and the final expenditure budget of \$39.1 million is due to \$3.6 million in encumbrances and articles being carried over to the subsequent fiscal year.

## **Capital Asset and Debt Administration**

*Capital Assets:* The Town's investment in capital assets for governmental activities as of June 30, 2016 and 2015, amounted to \$159.5 million and \$151.8 million, which is net of accumulated depreciation of \$57.3 million and \$52.6 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, 2016 and 2015, amounts to \$18.3 million and \$18.9 million, which is net of accumulated depreciation of \$21.8 million and \$21.0 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):

	<b><u>Governmental Activities</u></b>		<b><u>Business-type Activities</u></b>	
	2016	2015	2016	2015
Land	\$ 31,705	\$ 31,490	\$ 3,163	\$ 3,163
Construction in progress	4,228	13,059	666	667
Buildings and related improvements	107,717	91,755	1,062	1,065
Improvements other than buildings	5,162	5,526	484	518
Equipment, machinery, and vehicles	2,346	2,399	128	50
Infrastructure	8,320	7,585	12,761	13,431
Totals	<u>\$ 159,478</u>	<u>\$ 151,814</u>	<u>\$ 18,264</u>	<u>\$ 18,894</u>

Major capital asset events for governmental and business-type activities during 2016 include the following:

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

*Long-term debt:* At June 30, 2016, the Town had total bonded debt outstanding of \$78,170,247 and \$5,882,606 for the governmental and business-type activities, respectively, which is a decrease of 3% for the governmental and a decrease of 12% 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 4.0% from \$31.1 million in 2016 to \$32.4 million in 2017. The increase was from new growth, debt exclusions and increased debt service.

The operating budget increased 4% compared to the FY 16 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, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Eldredge Public Library
<b>Assets</b>				
Cash and cash equivalents	\$ 13,340,259	\$ 4,835,512	\$ 18,175,771	\$ 116,288
Investments	6,526,994	-	6,526,994	5,341,443
Receivables, net of allowance for uncollectibles	6,378,706	736,899	7,115,605	
Other receivables	631,134	-	631,134	77
Capital assets, net of depreciation	159,477,973	18,264,167	177,742,140	42,569
<b>Total Assets</b>	<b>186,355,066</b>	<b>23,836,578</b>	<b>210,191,644</b>	<b>5,500,377</b>
<b>Deferred Outflows of Resources</b>				
Net difference between projected and actual pension earnings	1,376,554	224,000	1,600,554	-
Changes in proportion and differences between contributions	9,057	1,000	10,057	-
Deferred amount on bond costs	28,244	2,308	30,552	-
<b>Total Deferred Outflows of Resources</b>	<b>1,413,855</b>	<b>227,308</b>	<b>1,641,163</b>	<b>-</b>
<b>Liabilities</b>				
Current liabilities:				
Warrants and salaries payable	1,435,694	72,605	1,508,299	3,656
Accrued interest	290,600	23,660	314,260	-
Provision for refund of paid taxes	662,723	-	662,723	-
Agency and other payables	201,659	-	201,659	-
Bond anticipation notes payable	1,926,511	-	1,926,511	-
Noncurrent liabilities:				
Due in one year or less	5,875,386	807,606	6,682,992	-
Due in more than one year	101,807,274	7,902,600	109,709,874	20,167
<b>Total Liabilities</b>	<b>112,199,847</b>	<b>8,806,471</b>	<b>121,006,318</b>	<b>23,823</b>
<b>Deferred Inflows of Resources</b>				
Deferred revenue	2,517,176	-	2,517,176	-
Net difference between projected and actual pension earnings	420,150	68,000	488,150	-
Unamortized bond premiums	1,512,349	10,481	1,522,830	-
<b>Total Deferred Inflows of Resources</b>	<b>4,449,675</b>	<b>78,481</b>	<b>4,528,156</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	81,307,726	12,381,561	93,689,287	-
Restricted	7,463,137		7,463,137	995,174
Unrestricted	(17,651,464)	2,797,373	(14,854,091)	4,481,380
<b>Total Net Position</b>	<b>\$ 71,119,399</b>	<b>\$ 15,178,934</b>	<b>\$ 86,298,333</b>	<b>\$ 5,476,554</b>

See accompanying notes to basic financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2016**

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	
<b>Primary Government</b>								
<u>Governmental Activities:</u>								
General government	\$ 3,291,950	\$ 817,164	\$ 355,961	\$ -	\$ (2,118,825)	\$ -	\$ (2,118,825)	\$ -
Public safety	6,846,257	664,306	15,112	-	(6,166,839)	-	(6,166,839)	-
Education	8,981,068	-	71,254	256,108	(8,653,706)	-	(8,653,706)	-
Public works	6,709,491	1,596,452	334,126	276,830	(4,502,083)	-	(4,502,083)	-
Community planning and development	878,189	75,948	25,596	-	(776,645)	-	(776,645)	-
Health and human services	676,489	61,830	28,789	-	(585,870)	-	(585,870)	-
Culture and recreation	1,470,299	205,256	39,550	-	(1,225,493)	-	(1,225,493)	-
Coastal Resources	1,257,257	1,048,160	121,872	-	(87,225)	-	(87,225)	-
Employee benefits	4,697,630	-	-	-	(4,697,630)	-	(4,697,630)	-
State and county charges	694,402	-	-	-	(694,402)	-	(694,402)	-
Interest expense and other charges	2,008,015	-	-	-	(2,008,015)	-	(2,008,015)	-
<b>Total Governmental Activities</b>	<b>37,511,047</b>	<b>4,469,116</b>	<b>992,260</b>	<b>532,938</b>	<b>(31,516,733)</b>	<b>-</b>	<b>(31,516,733)</b>	<b>-</b>
<u>Business-Type Activities:</u>								
Water fund	2,811,396	3,074,978	-	-	-	263,582	263,582	-
Wood Waste Reclamation Center	40,453	35,675	-	-	-	(4,778)	(4,778)	-
<b>Total Business-Type Activities</b>	<b>2,851,849</b>	<b>3,110,653</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>258,804</b>	<b>258,804</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 40,362,896</b>	<b>\$ 7,579,769</b>	<b>\$ 992,260</b>	<b>\$ 532,938</b>	<b>(31,516,733)</b>	<b>258,804</b>	<b>(31,257,929)</b>	<b>-</b>
<b>Component Unit</b>								
Eldredge Public Library	\$ 885,153	\$ -	\$ 1,141,424	\$ -	-	-	-	256,271
<u>General Revenues:</u>								
Property taxes, net of allowances for uncollectibles					32,805,596	-	32,805,596	-
Excise taxes					3,056,075	-	3,056,075	-
Penalties and interest on taxes					300,547	-	300,547	-
Grants and contributions not restricted to specific programs					138,739	-	138,739	-
Investment income					221,000	-	221,000	58,670
Loss on disposal of assets					(53,341)	-	(53,341)	-
Miscellaneous					115,985	-	115,985	11,621
Transfers (net)					(874,363)	574,363	(300,000)	-
<b>Total general revenues and transfers</b>					<b>35,710,238</b>	<b>574,363</b>	<b>36,284,601</b>	<b>70,291</b>
<b>Change in Net Position</b>					<b>4,193,505</b>	<b>833,167</b>	<b>5,026,672</b>	<b>326,562</b>
<b>Net Position - Beginning</b>					<b>66,925,894</b>	<b>14,345,767</b>	<b>81,271,661</b>	<b>5,149,992</b>
<b>Net Position - Ending</b>					<b>\$ 71,119,399</b>	<b>\$ 15,178,934</b>	<b>\$ 86,298,333</b>	<b>\$ 5,476,554</b>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2016

	General	Wastewater Facility	Fire Station Project	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 8,742,802	\$ -	\$ 211,452	\$ 4,386,005	\$ 13,340,259
Investments	3,017,641	-	-	3,509,353	6,526,994
Receivables, net	4,189,394	-	-	2,556,612	6,746,006
Other receivables	-	631,134	-	-	631,134
Interfund receivables	2,472,999	-	-	-	2,472,999
<b>Total Assets</b>	<u>18,422,836.00</u>	<u>631,134</u>	<u>211,452.00</u>	<u>10,451,970.00</u>	<u>29,717,392.00</u>
<b>Total Deferred Outflows of Resources</b>	-	-	-	-	-
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 18,422,836</u>	<u>\$ 631,134</u>	<u>\$ 211,452</u>	<u>\$ 10,451,970</u>	<u>\$ 29,717,392</u>
<b>Liabilities</b>					
Warrants and salaries payable	\$ 426,151	\$ 789,168	\$ -	\$ 220,375	\$ 1,435,694
Provision for refund of paid taxes	662,723	-	-	-	662,723
Agency and other payables	201,659	-	-	-	201,659
Notes payable	-	1,926,511	-	-	1,926,511
Interfund payables	-	2,472,999	-	-	2,472,999
<b>Total Liabilities</b>	<u>1,290,533</u>	<u>5,188,678</u>	<u>-</u>	<u>220,375</u>	<u>6,699,586</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - property taxes	275,374	-	-	39,437	314,811
Unavailable revenue - excise taxes	322,132	-	-	-	322,132
Unavailable revenue - other	2,455,711	-	-	2,517,176	4,972,887
<b>Total Deferred Inflows of Resources</b>	<u>3,053,217</u>	<u>-</u>	<u>-</u>	<u>2,556,613</u>	<u>5,609,830</u>
<b>Fund Balances</b>					
Nonspendable	-	-	-	841,917	841,917
Restricted	1,291,097	-	211,452	4,861,975	6,364,524
Assigned	3,094,498	-	-	-	3,094,498
Committed	3,530,554	-	-	2,059,116	5,589,670
Unassigned	6,162,937	(4,557,544)	-	(88,026)	1,517,367
<b>Total Fund Balances</b>	<u>14,079,086</u>	<u>(4,557,544)</u>	<u>211,452</u>	<u>7,674,982</u>	<u>17,407,976</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 18,422,836</u>	<u>\$ 631,134</u>	<u>\$ 211,452</u>	<u>\$ 10,451,970</u>	<u>\$ 29,717,392</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, 2016

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<b>Total Governmental Fund Balances</b>	<b>\$ 17,407,976</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	159,477,973
Certain deferred inflows of resources are accrued as revenue on a full accrual basis and are not reported in the governmental funds	1,160,155
Reporting on full accrual basis requires an estimate for uncollectible accounts	(367,300)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds	(107,682,660)
Certain deferred outflows of resources are reported on a full accrual basis and are not reported in the governmental funds	1,413,855
Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued	<u>(290,600)</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 71,119,399</u></u></b>

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, 2016

	General	Wastewater Facility	Fire Station Project	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property taxes	\$ 31,807,280	\$ -	\$ -	\$ 1,728,669	\$ 33,535,949
Excise taxes	3,023,617	-	-	-	3,023,617
License and permits	830,259	-	-	88,929	919,188
Penalties and interest	300,547	-	-	-	300,547
Investment income	107,453	-	-	113,547	221,000
Charges for services	2,104,684	-	-	146,050	2,250,734
Special assessments	49,139	-	-	-	49,139
Fees and fines	61,663	-	-	-	61,663
Contributions and donations	-	-	-	131,059	131,059
Departmental and other	1,152,717	-	-	299,657	1,452,374
Intergovernmental	1,110,373	-	-	1,071,610	2,181,983
<b>Total Revenues</b>	<b>40,547,732</b>	<b>-</b>	<b>-</b>	<b>3,579,521</b>	<b>44,127,253</b>
<b>Expenditures:</b>					
Current:					
General government	2,940,098	-	-	502,243	3,442,341
Public safety	5,867,056	-	7,503,084	279,054	13,649,194
Education	8,358,703	-	-	25,961	8,384,664
Public works	4,909,367	2,979,784	-	401,609	8,290,760
Community planning and development	813,345	-	-	62,478	875,823
Health and human services	579,356	-	-	104,316	683,672
Culture and recreation	983,926	-	-	87,714	1,071,640
Coastal resources	1,036,256	-	-	232,344	1,268,600
Employee benefits	3,929,263	-	-	-	3,929,263
State and county tax assessments	694,402	-	-	-	694,402
Debt service	7,771,967	-	-	-	7,771,967
<b>Total Expenditures</b>	<b>37,883,739</b>	<b>2,979,784</b>	<b>7,503,084</b>	<b>1,695,719</b>	<b>50,062,326</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>2,663,993</b>	<b>(2,979,784)</b>	<b>(7,503,084)</b>	<b>1,883,802</b>	<b>(5,935,073)</b>
<b>Other Financing Sources (Uses):</b>					
Issuance of long-term debt	-	3,336,119	-	-	3,336,119
Transfers in	1,029,100	5,580	-	36,900	1,071,580
Transfers out	(911,263)	-	-	(1,034,680)	(1,945,943)
<b>Total Other Financing Sources (Uses)</b>	<b>117,837</b>	<b>3,341,699</b>	<b>-</b>	<b>(997,780)</b>	<b>2,461,756</b>
<b>Net Change in Fund Balances</b>	<b>2,781,830</b>	<b>361,915</b>	<b>(7,503,084)</b>	<b>886,022</b>	<b>(3,473,317)</b>
Fund Balances - Beginning	11,297,256	(4,919,459)	7,714,536	6,788,960	20,881,293
<b>Fund Balances - Ending</b>	<b>\$ 14,079,086</b>	<b>\$ (4,557,544)</b>	<b>\$ 211,452</b>	<b>\$ 7,674,982</b>	<b>\$ 17,407,976</b>

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, 2016**

**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ (3,473,317)**

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	12,474,438
Loss on disposal of capital assets	(53,341)
Depreciation expense	<u>(4,757,179)</u>

Net effect of reporting capital assets 7,663,918

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 bond costs	(14,121)
Amortization of bond premiums	164,434
Proceeds from permanent financing	(3,336,119)
Proceeds from capital lease obligations	(403,695)
Repayments of capital lease obligations	199,330
Repayments of bonds and notes	<u>5,552,239</u>

Net effect of reporting long-term debt 2,162,068

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	(1,481,497)
Net change in allowance for uncollectible accounts	<u>(13,300)</u>

Net effect of recognition of revenue (1,494,797)

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

Net difference between projected and actual pension earnings	928,428
Changes in proportion and differences between employer contributions	<u>9,057</u>

Net effect of pension deferred outflows 937,485

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>61,400</u>
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Net effect of interest accrual 61,400

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	17,600
Net other postemployment benefits	(417,760)
Net pension liability	<u>(1,288,092)</u>

Net effect of reporting long-term liabilities (1,663,252)

**Change in Net Position of Governmental Activities** **\$ 4,193,505**

See accompanying notes to basic financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,599,059	\$ 236,453	\$ 4,835,512
Receivables, net of allowance for uncollectibles	736,899	-	736,899
Capital assets, net of depreciation	16,039,167	2,225,000	18,264,167
<b>Total Assets</b>	<b>21,375,125</b>	<b>2,461,453</b>	<b>23,836,578</b>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual pension earnings	224,000	-	224,000
Changes in proportion and differences between contributions	1,000	-	1,000
Deferred amount on bond costs	2,308	-	2,308
<b>Total Deferred Outflows of Resources</b>	<b>227,308</b>	<b>-</b>	<b>227,308</b>
<b>Liabilities</b>			
Current liabilities:			
Warrants and salaries payable	70,805	1,800	72,605
Accrued interest	20,900	2,760	23,660
Noncurrent liabilities:			
Due in one year or less	662,606	145,000	807,606
Due in more than one year	7,467,600	435,000	7,902,600
<b>Total Liabilities</b>	<b>8,221,911</b>	<b>584,560</b>	<b>8,806,471</b>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual pension earnings	68,000	-	68,000
Unamortized bond premiums	10,481	-	10,481
<b>Total Deferred Inflows of Resources</b>	<b>78,481</b>	<b>-</b>	<b>78,481</b>
<b>Net Position</b>			
Net investment in capital assets	10,736,561	1,645,000	12,381,561
Unrestricted	2,565,480	231,893	2,797,373
<b>Total Net Position</b>	<b>\$ 13,302,041</b>	<b>\$ 1,876,893</b>	<b>\$ 15,178,934</b>

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, 2016**

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Activities	Total
<b>Operating revenues</b>			
Charges for services, departmental and other	\$ 2,697,756	\$ 35,675	\$ 2,733,431
Fines and forfeitures	32,667	-	32,667
Total operating revenues	<u>2,730,423</u>	<u>35,675</u>	<u>2,766,098</u>
<b>Operating expenses</b>			
Salaries and wages	469,104	-	469,104
Operating expenses	1,280,192	12,000	1,292,192
Depreciation	787,816	-	787,816
Total operating expenses	<u>2,537,112</u>	<u>12,000</u>	<u>2,549,112</u>
<b>Operating income (loss)</b>	193,311	23,675	216,986
<b>Non operating revenues</b>			
Water tower lease	344,555	-	344,555
Interest expense	(274,284)	(28,453)	(302,737)
Total non operating revenue (expenses), net	<u>70,271</u>	<u>(28,453)</u>	<u>41,818</u>
<b>Transfers</b>			
Transfers in from other funds	400,000	174,363	574,363
Total transfers, net	<u>400,000</u>	<u>174,363</u>	<u>574,363</u>
<b>Change in net position</b>	663,582	169,585	833,167
Net position at beginning of year	12,638,459	1,707,308	14,345,767
<b>Net position at end of year</b>	<u><u>\$ 13,302,041</u></u>	<u><u>\$ 1,876,893</u></u>	<u><u>\$ 15,178,934</u></u>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 JUNE 30, 2016

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Activities	Total
<b>Cash flows from operating activities</b>			
Receipts from customers and users	\$ 2,952,456	\$ 35,675	\$ 2,988,131
Payments to vendors	(1,233,081)	(10,200)	(1,243,281)
Payments to employees, including fringe benefits	(411,404)	-	(411,404)
Net cash provided by (used for) operating activities	1,307,971	25,475	1,333,446
<b>Cash flows from noncapital financing activities</b>			
Transfer in from General Fund	400,000	174,363	574,363
Water tower lease	344,555	-	344,555
Net cash provided by (used for) noncapital financing activities	744,555	174,363	918,918
<b>Cash flows from capital and related financing activities</b>			
Payments of long-term debt principal	(662,606)	(145,000)	(807,606)
Payments of interest costs	(303,935)	(29,363)	(333,298)
Net cash provided by (used for) capital and related financing activities	(966,541)	(174,363)	(1,140,904)
<b>Cash flows from investing activities</b>			
Purchase of capital assets	(157,621)	-	(157,621)
Net cash provided by (used for) investing activities	(157,621)	-	(157,621)
Net change in cash and cash equivalents	928,364	25,475	953,839
Cash and cash equivalents at beginning of year	3,670,695	210,978	3,881,673
Cash and cash equivalents at end of year	\$ 4,599,059	\$ 236,453	\$ 4,835,512
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income	\$ 193,311	\$ 23,675	\$ 216,986
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	787,816	-	787,816
Changes in assets and liabilities:			
User fees receivable, net of allowance for uncollectibles	222,134	-	222,134
Warrants payable	47,010	1,800	48,810
Accrued compensated absences	700	-	700
Pension deferred inflows/outflows	(153,000)	-	(153,000)
Net pension liability	210,000	-	210,000
Total adjustments	326,844	1,800	481,644
Net cash provide by (used for) operating activities	\$ 1,307,971	\$ 25,475	\$ 1,333,446

See accompanying notes to basic financial statements.

**TOWN OF CHATHAM, MASSACHUSETTS**  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET POSITION  
 JUNE 30, 2016

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund	Agency Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 3,169	\$ 190	\$ 265,675
Investments		580,177	420,277
Receivables	-	-	42,312
<b>Total Assets</b>	<u>3,169</u>	<u>580,367</u>	<u>728,264</u>
<b>Liabilities</b>			
Warrants and other payables	-	-	2,480
Agency payables	-	-	725,784
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>728,264</u>
<b>Net Position</b>			
Held in trust	3,169	580,367	-
<b>Total Net Position</b>	<u>\$ 3,169</u>	<u>\$ 580,367</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, 2016**

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund
<b>Additions</b>		
Interest and dividends	\$ 52	\$ 23,936
Contributions	-	190
Total Additions	<u>52</u>	<u>24,126</u>
<b>Transfers in</b>	<u>-</u>	<u>300,000</u>
Change in net position	52	324,126
Net position at beginning of year	3,117	256,241
Net position at end of year	<u>\$ 3,169</u>	<u>\$ 580,367</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, 2016**

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**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 t joint ventures.

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY2016 Payments</u>
Cape Cod Municipal Health Group c/o Group Benefit Strategies 27 Midstate Office Park Auburn, MA 01501	To provide employee insurance benefits	\$ 2,194,078
Cape Cod Regional Technical High School Route 124 Harwich, MA 02645	To provide vocational education to students 9-12 grade	\$ 309,122

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY2016 Payments</u>
Monomoy Regional School District 81 Oak Street Harwich, MA 02645	To provide education to students K-12	\$ 8,207,932
Cape Cod Regional Transit Authority 585 Main Street Dennis, MA 02638	To provide regional transportation	\$ 14,808
District Dept. of Veteran Services PO Box 429 Hyannis, MA 02601	To provide service to veterans	\$ 43,331
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
- Fire Station Project is a capital project fund used to account for and report construction of the Town's new fire station 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, 2016, the classification of the Town's fund balances can be detailed as follows:

	General Fund	Wastewater Facility	Fire Station Project	Nonmajor Governmental Funds	Total
Nonspendable:					
Nonexpendable trust funds	\$ -	\$ -	\$ -	\$ 841,917	\$ 841,917
Restricted:					
General government	-	-	-	3,433,222	3,433,222
Public safety	-	-	211,452	563,142	774,594
Education	-	-	-	298,403	298,403
Public works	-	-	-	52,619	52,619
Health and human services	-	-	-	41,556	41,556
Culture and recreation	-	-	-	156,993	156,993
Coastal resources	-	-	-	316,040	316,040
Debt service	1,291,097	-	-	-	1,291,097
Assigned:					
General government	20,096	-	-	-	20,096
Public safety	54	-	-	-	54
Public works	8,270	-	-	-	8,270
Community planning and dev.	1,840	-	-	-	1,840
Culture and recreation	9,128	-	-	-	9,128
Coastal resources	70	-	-	-	70
Employee benefits	1,439	-	-	-	1,439
Subsequent year budget	3,053,600	-	-	-	3,053,600
Committed:					
General government	539,077	-	-	1,741,233	2,280,310
Public safety	432,715	-	-	-	432,715
Public works	1,443,336	-	-	-	1,443,336
Community planning and dev.	129,802	-	-	-	129,802
Health and human services	135,349	-	-	-	135,349
Culture and recreation	48,000	-	-	12,374	60,374
Coastal resources	802,276	-	-	305,509	1,107,785
Unassigned	6,162,937	(4,557,544)	-	(88,026)	1,517,367
	<u>\$14,079,086</u>	<u>\$(4,557,544)</u>	<u>\$ 211,452</u>	<u>\$ 7,674,982</u>	<u>\$17,407,976</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, 2016, the Town maintained a balance of \$1,915,299 in its stabilization fund.

In addition, the general fund unassigned fund balance included a deficit of \$103,771 for public safety overtime spending in excess of available appropriation. 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.

**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:

Special revenue funds:		
Community preservation fund	\$	2,440,869
Land bank fund		1,535,077
Other special revenue funds		2,478,904
Capital project funds:		66,391
Permanent funds:		
Expendable		99,979
Non-expendable		841,917
Total restricted net position	\$	<u>7,463,137</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 form 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, 2016, deposits totaled \$18,769,225 and had a carrying amount of \$18,444,805. Of the deposit amount, \$1,503,313 was exposed to custodial credit risk at June 30, 2016 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, 2016, the carrying amount of deposits for the Component Unit totaled \$116,288. The total bank balance was covered by Federal Depository Insurance.

The Town's investments are as follows:

<u>Investment Type</u>	<u>(Level 1) Fair Market Value</u>	<u>Rating</u>	<u>N/A</u>	<u>Maturity</u>	
				<u>12 months or less</u>	<u>1 to 5 Years</u>
<b>Governmental Activities:</b>					
U.S. Treasury Notes	\$ 1,434,974	AA+			1,434,974
Common Stock	873,851	N/A	873,851		
MMDT	2,352,798	N/A	2,352,798		
Money Market Securities	227,328	N/A	227,328		
Certificates of Deposit	856,845	N/A		302,271	554,574
Mutual Funds	193,709	N/A	193,709		
Corporate Bonds	<u>587,489</u>	AA+ to BBB-	-	<u>82,071</u>	<u>505,418</u>
Total governmental activities	<u>\$ 6,526,994</u>		<u>\$ 3,647,686</u>	<u>\$ 384,341</u>	<u>\$ 2,494,966</u>
<b>Fiduciary Activities:</b>					
U.S. Treasury Notes	\$ 155,935	AA+			155,935
Common Stock	432,115	N/A	432,115		
Money Market Securities	21,438	N/A	21,438		
Certificates of Deposit	93,111	N/A		32,847	60,264
Mutual Funds	234,013	N/A	234,013		
Corporate Bonds	<u>63,841</u>	AA+ to BBB-	-	<u>8,910</u>	<u>54,931</u>
Total fiduciary activities	<u>\$ 1,000,454</u>		<u>\$ 687,567</u>	<u>\$ 41,757</u>	<u>\$ 271,131</u>

The Component Unit's investments are as follows:

<u>Investment Type</u>	<u>(Level 1) Fair Market</u>		
	<u>Value</u>	<u>Rating</u>	<u>Maturity</u>
Cash held for investment	662,901	N/A	N/A
Bonds	1,470,476	Not provided	Not provided
Mutual Funds	<u>3,208,066</u>	N/A	N/A
Total component unit	<u>\$ 5,341,443</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:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
Real estate and personal property taxes	\$ 934,132	\$ (118,400)	\$ 815,732
Tax liens, deferrals and foreclosures	511,813	-	511,813
Motor vehicle and other excise	321,855	(202,500)	119,355
Departmental and other	278,429	(46,400)	232,029
Betterments and special assessments	530,069	-	530,069
Intergovernmental:			
School building assistance - due in future year	1,652,532	-	1,652,532
State highway awards - Chapter 90	2,517,176	-	2,517,176
Total	<u>\$ 6,746,006</u>	<u>\$ (367,300)</u>	<u>\$ 6,378,706</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	\$ 223,049	\$	\$ 223,049
Unbilled water rates	536,650		536,650
Allowance for uncollectible		( 22,800)	( 22,800)
Totals	<u>\$ 759,699</u>	<u>\$ ( 22,800)</u>	<u>\$ 736,899</u>

#### **Note 6. Other Receivables**

The Massachusetts Clean Water Trust ("MCWT") interim note dated February 11, 2016 for \$3,336,119 (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 \$631,134 as of June 30, 2016 the town received \$1,170,108 during the year.

#### **Note 7: Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 31,489,609	\$ 251,300	\$ (36,415)	\$ 31,704,494
Construction in Process	13,058,496	3,562,262	(12,392,813)	4,227,945
Total capital assets not being depreciated	<u>44,548,105</u>	<u>3,813,562</u>	<u>(12,429,228)</u>	<u>35,932,439</u>
Capital assets being depreciated:				
Buildings and improvements	118,593,765	19,391,418	-	137,985,183
Improvements other than buildings	13,859,194	80,034	-	13,939,228
Machinery, equipment & vehicles	7,774,192	489,594	(57,562)	8,206,224
Infrastructure	19,620,879	1,092,643	-	20,713,522
Total capital assets being depreciated	<u>159,848,030</u>	<u>21,053,689</u>	<u>(57,562)</u>	<u>180,844,157</u>
Less accumulated depreciation for:				
Buildings and improvements	(26,838,516)	(3,428,976)	-	(30,267,492)
Improvements other than buildings	(8,332,830)	(443,822)	-	(8,776,652)
Machinery, equipment & vehicles	(5,374,590)	(526,226)	40,636	(5,860,180)
Infrastructure	(12,036,144)	(358,155)	-	(12,394,299)
Total accumulated depreciation	<u>(52,582,080)</u>	<u>(4,757,179)</u>	<u>40,636</u>	<u>(57,298,623)</u>
Governmt'l activities capital assets, net	<u>\$ 151,814,055</u>	<u>\$ 20,110,072</u>	<u>\$(12,446,154)</u>	<u>\$159,477,973</u>

Business-type Activities:

Water Activities

Capital assets not being depreciated:

Land	\$ 938,433	\$ -	\$ -	\$ 938,433
Construction in Process	666,222	-	-	666,222
Total capital assets not being depreciated	<u>1,604,655</u>	<u>-</u>	<u>-</u>	<u>1,604,655</u>

Capital assets being depreciated:

Buildings and improvements	1,451,995	53,146	-	1,505,141
Improvements other than buildings	687,423	-	-	687,423
Machinery, equipment & vehicles	140,182	104,475	-	244,657
Infrastructure	33,767,992	-	-	33,767,992
Total capital assets being depreciated	<u>36,047,592</u>	<u>157,621</u>	<u>-</u>	<u>36,205,213</u>

Less accumulated depreciation for:

Buildings and improvements	(387,068)	(55,779)	-	(442,847)
Improvements other than buildings	(168,562)	(34,669)	-	(203,231)
Machinery, equipment & vehicles	(90,114)	(26,382)	-	(116,496)
Infrastructure	(20,337,141)	(670,986)	-	(21,008,127)
Total accumulated depreciation	<u>(20,982,885)</u>	<u>(787,816)</u>	<u>-</u>	<u>(21,770,701)</u>
Water activities capital assets, net	<u>\$ 16,669,362</u>	<u>\$ (630,195)</u>	<u>\$ -</u>	<u>\$ 16,039,167</u>

Waste Water Activities

Capital assets not being depreciated:

Land	\$ 2,225,000	\$ -	\$ -	\$ 2,225,000
Waste Wood activities capital assets, net	<u>2,225,000</u>	<u>-</u>	<u>-</u>	<u>2,225,000</u>
Business-type activities capital assets, net	<u>\$ 18,894,362</u>	<u>\$ (630,195)</u>	<u>\$ -</u>	<u>\$ 18,264,167</u>

Component unit activities:

Capital assets being depreciated:

Equipment and furniture	\$ 375,493	\$ 22,337	\$ -	\$ 397,830
Less accumulated depreciation for:				
Equipment and furniture	<u>\$ (344,842)</u>	<u>\$ (10,419)</u>	<u>-</u>	<u>\$ (355,261)</u>
Component unit activity capital assets, net	<u>\$ 30,651</u>	<u>\$ 11,918</u>	<u>\$ -</u>	<u>\$ 42,569</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 184,787
Public safety	802,621
Education	596,403
Public works	2,573,709
Health and human services	18,551
Culture and recreation	398,186
Coastal resources	182,922
Total Governmental Activities	<u>\$ 4,757,179</u>

Business-type Activities:

Water/Total \$ 787,816

Component unit Activities:

Eldredge Public Library/Total \$ 10,419

**Note 8: Interfund Balances and Activity**

The general fund was due, \$2,472,999, from the Wastewater Facility fund at June 30, 2016.

Interfund transfers for the fiscal year ended June 30, 2016, consisted of the following:

Transfers Out	Transfers In						Total
	General Fund	Wastewater Facility	Nonmajor Governmental Funds	Business-type Water Activities	Business-type Wood Waste Activities	OPEB Fiduciary Fund	
General Fund	\$ -	\$ -	\$ 36,900	\$ 400,000	\$ 174,363	\$ 300,000	\$ 911,263 (1)
Nonmajor Governmental Funds	<u>1,029,100</u>	<u>5,580</u>	-				<u>1,034,680 (2)</u>
Total	<u>\$1,029,100</u>	<u>\$ 5,580</u>	<u>\$ 36,900</u>	<u>\$ 400,000</u>	<u>\$ 174,363</u>	<u>\$ 300,000</u>	<u>\$ 1,945,943</u>

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

(2) 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, 2016:

Purpose	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<b>Governmental Activities:</b>					
MCWT Septic betterment subsidized bond, 3.98%, matures 2023	\$ 65,195	\$ -	(10,829)	\$ 54,366	\$ 10,829
Municipal purposes-refunding, 3.98%, due 2019	220,000		(55,000)	165,000	55,000
Municipal purposes-refunding, 2.5 – 5.0%, due 2016	679,788		(339,894)	339,894	339,894
Municipal purposes 3.75% - 4.1%, due 2025	2,065,000		(325,000)	1,740,000	325,000
Municipal purposes, subsidized, due 2026	27,500		(2,500)	25,000	2,500
Municipal purposes-refunding, 3.0 – 5.0%, due 2019	3,710,000		(1,055,000)	2,655,000	1,045,000
Municipal purposes 3.0% - 5.0%, due 2028	7,940,000		(860,000)	7,080,000	860,000
Municipal purposes 3.0% - 5.0%, due 2038	10,320,000		(440,000)	9,880,000	440,000
MCWT Wastewater Treatment Facility, 2.0%, due 2028	2,732,480		(146,368)	2,586,112	149,325
Municipal Purposes, 2.0% - 5.0%, due 2037	18,385,000		(1,005,000)	17,380,000	1,000,000
USDA Sewer Bond, 2.75%, due 2049	19,835,361		(583,393)	19,251,968	583,393

Purpose	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
USDA Sewer Bond, 2.75%, due 2049	1,620,474		(47,662)	1,572,812	47,662
MCWT Wastewater Treatment Facility, 2.0%, due 2032	6,904,044		(317,513)	6,586,531	324,414
MCWT Wastewater Treatment Facility, 0.0%, due 2033	2,033,672		(174,416)	1,859,256	108,617
MCWT Wastewater Treatment Facility, 0.0%, due 2035	3,847,853		(189,664)	3,658,189	189,948
MCWT Wastewater Treatment Facility, 0.0%, due 2036	-	3,336,119	-	3,336,119	164,439
Total long-term bonds payable	80,386,367	3,336,119	(5,552,239)	78,170,247	5,646,021
Capital lease obligations	-	403,695	(199,330)	204,365	204,365
Landfill closure and monitoring liability	225,000	-	(25,000)	200,000	25,000
Compensated absences	889,500	-	(17,600)	871,900	-
Other postemployment benefits	10,473,043	1,373,380	(955,620)	10,890,803	-
Net pension liability	16,057,253	2,775,956	(1,487,864)	17,345,345	-
<b>Total Governmental Activities</b>	<b>\$108,031,163</b>	<b>\$7,889,150</b>	<b>\$(8,237,653)</b>	<b>\$ 107,682,660</b>	<b>\$ 5,875,386</b>
<b>Business-type Activities:</b>					
<u>Water Activities</u>					
		\$			
Land Acquisition, 5.23%, due 2014	\$ 10,212	-	(5,106)	\$ 5,106	\$ 5,106
Municipal purposes-refunding, 3.98%, due 2021	320,000		(90,000)	230,000	90,000
Municipal purposes, 3.75% - 4.1%, due 2025	1,705,000		(155,000)	1,550,000	155,000
Municipal purposes, 4.25%, due 2049	425,000		(12,500)	412,500	12,500
Municipal purposes, 3.0% - 5.0%, due 2028	410,000		(35,000)	375,000	35,000
Municipal purposes - refunding, 3.0% - 5.0%, due 2019	200,000		(50,000)	150,000	50,000
Municipal purposes, 2.0% - 5.0%, due 2032	1,265,000		(80,000)	1,185,000	80,000
Municipal purposes, 3.0% - 5.0%, due 2038	<u>1,630,000</u>		<u>(235,000)</u>	<u>1,395,000</u>	<u>235,000</u>
Total long-term bonds payable	5,965,212	-	(662,606)	5,302,606	662,606
Compensated absences	2,900	700	-	3,600	-
Net pension liability	2,614,000	452,000	(242,000)	2,824,000	-
<b>Total Water Activities</b>	<b>\$ 8,582,112</b>	<b>\$ 452,700</b>	<b>\$ (904,606)</b>	<b>\$ 8,130,206</b>	<b>\$ 662,606</b>
<u>Wood Waste Activities</u>					
Land Acquisition, 3.0% - 3.5%, due 2020	\$ 725,000	\$ -	\$ (145,000)	\$ 580,000	\$ 145,000
Total long-term bonds payable	725,000	-	(145,000)	580,000	145,000
<b>Total Waste Wood Activities</b>	<b>\$ 725,000</b>	<b>\$ -</b>	<b>\$ (145,000)</b>	<b>\$ 580,000</b>	<b>\$ 145,000</b>
<b>Total Business-Type Activities</b>	<b>\$ 9,307,112</b>	<b>\$ 452,700</b>	<b>\$(1,049,606)</b>	<b>\$ 8,710,206</b>	<b>\$ 807,606</b>
<b>Component Unit:</b>					
Compensated absences	\$ 21,501	\$ -	\$ (1,334)	\$ 20,167	\$ -
<b>Total Component Unit</b>	<b>\$ 21,501</b>	<b>\$ -</b>	<b>\$ (1,334)</b>	<b>\$ 20,167</b>	<b>\$ -</b>

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.

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2016, including interest, are as follows:

Year Ending June 30,	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 5,646,021	\$ 2,640,196	\$ 8,286,217	\$ 807,606	\$ 235,585	\$ 1,043,191
2018	5,246,829	2,401,854	7,648,683	737,500	202,405	939,905
2019	4,717,742	2,232,999	6,950,741	737,500	173,123	910,623
2020	4,098,873	2,084,533	6,183,406	687,500	140,099	827,599
2021	3,895,451	1,907,225	5,802,676	397,500	112,211	509,711
2022-2026	17,475,458	7,378,525	24,853,983	1,752,500	321,248	2,073,748
2027-2031	14,873,105	4,831,320	19,704,425	472,500	101,875	574,375
2032-2036	11,688,088	2,839,976	14,528,064	127,500	44,613	172,113
2037-2041	5,480,275	1,255,436	6,735,711	62,500	25,440	87,940
2042-2046	3,155,275	607,386	3,762,661	62,500	18,594	81,094
2047-2049	1,893,130	173,536	2,066,666	37,500	5,310	42,810
Total	<u>\$78,170,247</u>	<u>\$28,352,986</u>	<u>\$106,523,233</u>	<u>\$5,882,606</u>	<u>\$1,380,503</u>	<u>\$7,263,109</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, 2016:

<u>Project</u>	<u>Year Authorized</u>	<u>Amount</u>
Community septic - betterment	2002	\$ 150,000
Planning - roads	1995	150,000
Community center	2003	15,000
Water and well pumping station	2006	560,000
Road/sidewalk/bike path	2007	200,000
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	556,635
Iron & manganese treatment facility	2014	5,533,000
Wastewater treatment facility	2014	3,040,000
Iron & manganese treatment facility	2016	3,500,000
Total Authorized and Unissued Debt		<u>\$ 15,860,868</u>

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, 2016.

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, 2016 are summarized below:

Lease	Balance 6/30/2016
Ford F-250	\$ 8,987
Quint Truck	195,378
Total	\$ 204,365

The future minimum lease payments and present value of the minimum lease payments at June 30, 2016 are as follows:

Fiscal Year Ended June 30,	Amount
2017	\$ 204,365
Total minimum lease payments	\$ 204,365

**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, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Governmental Activities:</i>				
<u>Deferred outflows of resources:</u>				
Net difference between projected and actual pension earnings	\$ 27,976	\$ 1,348,578	\$ -	\$ 1,376,554
Changes in proportion and difference between employer contribution and proportionate share of contributions	-	9,057	-	9,057
Deferred amount on bond refunding	42,365	-	(14,121)	28,244
Total deferred outflows of resources	\$ 70,341	\$ 1,357,635	\$ (14,121)	\$ 1,413,855

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Deferred inflows of resources:</u>				
Deferred revenue	\$ 2,108,650	\$ 408,526	\$ -	\$ 2,517,176
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	420,150	-	420,150
Unamortized bond premiums	1,676,783	-	(164,434)	1,512,349
Total deferred inflows of resources	<u>\$ 3,785,433</u>	<u>\$ 828,676</u>	<u>\$ (164,434)</u>	<u>\$ 4,449,675</u>

*Business-type Activities:*

Deferred outflows of resources:

Net difference between projected and actual pension earnings	\$ 4,000	\$ 220,000	\$ -	\$ 224,000
Changes in proportion and difference between employer contributions and proportionate share of contributions	-	1,000	-	1,000
Deferred amount on bond refunding	3,461	-	(1,153)	2,308
Total deferred outflows of resources	<u>\$ 7,461</u>	<u>\$ 221,000</u>	<u>\$ (1,153)</u>	<u>\$ 227,308</u>

Deferred inflows of resources:

Changes in proportion and difference between employer contributions and proportionate share of contributions	\$ -	\$ 68,000	\$ -	\$ 68,000
Unamortized bond premiums	15,721	-	(5,240)	10,481
Total deferred inflows of resources	<u>\$ 15,721</u>	<u>\$ 68,000</u>	<u>\$ (5,240)</u>	<u>\$ 78,481</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, 2016 is as follows:

Type	Dated	Interest Rate	Maturity Date	Beginning Balance	Additions	Retirements	Ending Balance
BAN	06/26/15	0.60%	06/24/16	\$ 500,000	\$ -	\$ (500,000)	\$ -
BAN	06/24/16	0.90%	06/23/17	-	491,500	-	491,500
MCWT Interim Loan	06/05/14	2.00%	N/A	20,770,417	-	(20,770,417)	-
MCWT Interim Loan	8/15/2014	0.10%	N/A	610,914	-	(610,914)	-
MCWT Interim Loan	6/5/2014	2.00%	N/A	3,469,583	-	(3,469,583)	-
MCWT Interim Loan	N/A	N/A	N/A	1,435,011	-	-	1,435,011
Total Temporary Notes Payable				<u>\$26,785,925</u>	<u>\$491,500</u>	<u>\$(25,350,914)</u>	<u>\$1,926,511</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, 2015, 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 \$1,762,864, which was net of the discount of approximately \$35,000.

*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, 2015 based upon the valuation date of January 1, 2014:

	<u>2015</u>
Total pension liability	\$1,502,651,474
Less: Plan fiduciary net position	<u>(873,002,091)</u>
Net pension liability	<u>\$ 629,649,383</u>
Plan fiduciary net position as a percentage of the total pension liability	58.10%
Total employer pension expense	\$ 69,712,851
Town's proportionate share of the collective net pension liability	\$ 20,169,345
Town's percentage share of the collective net pension liability	3.20%
Town's covered payroll	\$ 8,371,238
Town's proportionate share of pension expense recognized	\$ 2,137,470

The Town's proportionate share of collective net deferred outflows of resources of \$49,966,322 as a result of the net difference between projected and actual investment earnings of the pension plan investments, was \$1,122,461. This amount is to be recognized in future pension expense as follows:

Year ended June 30,		
2017	\$	306,456
2018		306,456
2019		306,456
2020		298,714
2021		(95,621)
	\$	<u>1,122,461</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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Domestic equity	20%	6.6%
International developed markets equity	16%	7.1%
International emerging markets equity	7%	9.4%
Core fixed income	13%	2.2%
High-yield fixed income	10%	4.7%
Real estate	10%	4.4%
Commodities	4%	4.4%
Hedge funds	10%	3.9%
Private equity	10%	11.7%
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, 2015:

	<b>1.0% Decrease to 6.75%</b>	<b>Current Discount Rate 7.75%</b>	<b>1% Increase to 8.75%</b>
BCRA - Total Plan	\$ 798,489,114	\$ 629,649,383	\$ 486,357,107
Town's proportionate share	\$ 25,577,730	\$ 20,169,345	\$ 15,579,312

**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 200 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	\$ 1,212,376
Interest on net OPEB obligation	628,383
Adjustment to annual required contribution	(467,379)
Amortization of actuarial gains/losses	-
Annual OPEB cost (expenses)	1,373,380
Contributions made	(955,620)
Increase in net OPEB obligation	417,760
Net OPEB obligation, beginning year	10,473,043
Net OPEB obligation, end of year	\$ 10,890,803

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 1,373,380	69.6%	\$ 10,890,803
6/30/2015	\$ 1,317,825	69.8%	\$ 10,473,043
6/30/2014	\$ 1,219,999	60.1%	\$ 10,074,477

#### 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 $[(b)-(a)]/c$
7/1/2014	\$ 102,543	\$ 16,771,422	\$16,668,879	0.61%	N/A	N/A

The unfunded actuarial liability was determined using a thirty-year open amortization basis increasing at 4.0%.

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: 6.0% per annum

Medical/Drug Cost Trend Rates: 10.0% decreasing by 2.0% for 1 year and 0.5% for 6 years to an ultimate rate of 5.0% per year for participants under 65 years old. 10.0% decreasing by 0.5% for 10 years to an ultimate rate of 5.0% per year for participants over 65 years old.

Dental Cost Trend Rate: None

General Inflation Assumption: 4.0% per annum

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortization payments increasing at 4.0% 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, 2016, \$200,000 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 January 18, 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 Statement #72, *Fair Value Measurement and Application*, which is required to be implemented in fiscal year 2016. The pronouncement addresses accounting and financial reporting issues related to fair value measurements. The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

The GASB issued Statement #73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 was to improve the usefulness of information about pensions included in the general-purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement established requirements for defined benefit pensions that are not within the scope of Statement 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it established requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement were effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016 (fiscal year 2017). The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

The GASB issued Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in fiscal year 2017. The pronouncement replaces previously issued guidance and improves financial reporting by redefining the hierarchy of generally accepted accounting principles (“GAAP”). The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

The GASB issued Statement #79, *Certain External Investment Pools and Pool Participants*, which is required to be implemented in fiscal year 2016. The pronouncement issues accounting and financial reporting guidance regarding qualifying external investment pools and state and local governments that participate in such external investment pools. The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

### **Future 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. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

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 #77, *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017. 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. The Town will evaluate the implementation of the pronouncement as applicable.

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. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. This Statement is not expected to have a material effect on the Town's financial statements.

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. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2017. 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 #82, *Pension Issues - An Amendment of GASB Statement No. 67, No. 68 and No. 73* which is generally required to be implemented in fiscal year 2018. The pronouncement addresses certain classification, presentation and other issues raised with previous Statements addressing pension obligations. The Town expects to implement 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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:				
Property taxes and payments in lieu	\$ 30,786,542	\$ 30,786,542	\$ 31,601,801	\$ 815,259
Excise taxes	2,315,000	2,315,000	3,023,617	708,617
Licenses and permits	770,000	770,000	830,259	60,259
Penalties and interest	100,000	100,000	300,547	200,547
Investment earnings	20,000	20,000	87,819	67,819
Charges for services	1,740,000	1,740,000	2,104,684	364,684
Special assessments	60,000	60,000	49,139	(10,861)
Fees and fines	50,000	50,000	61,663	11,663
Departmental and other	835,252	835,252	1,152,717	317,465
Intergovernmental	<u>1,136,556</u>	<u>1,136,556</u>	<u>1,110,373</u>	<u>(26,183)</u>
Total revenues	37,813,350	37,813,350	40,322,619	2,509,269
Expenditures:				
General government	3,677,158	3,028,660	2,940,098	88,562
Public safety	6,076,055	5,763,286	5,867,057	(103,771)
Education	8,517,054	8,517,054	8,517,054	-
Public works	6,482,998	4,981,393	4,909,367	72,026
Community planning and development	926,326	844,008	813,345	30,663
Health & human services	779,625	624,276	579,356	44,920
Culture and recreation	1,100,956	1,033,828	983,926	49,902
Coastal resources	1,859,136	1,056,791	1,036,256	20,535
Employee benefits	4,702,316	4,700,877	4,206,100	494,777
State and county assessments	694,400	694,400	694,400	-
Debt service	<u>7,860,558</u>	<u>7,860,558</u>	<u>7,787,979</u>	<u>72,579</u>
Total expenditures	<u>42,676,582</u>	<u>39,105,131</u>	<u>38,334,938</u>	<u>770,193</u>
Revenues over (under) expenditures	(4,863,232)	(1,291,781)	1,987,681	1,739,076
Other financing sources (uses):				
Bond premium proceeds			-	-
Transfers in	1,305,937	1,305,937	1,305,937	-
Transfers out	<u>(586,900)</u>	<u>(586,900)</u>	<u>(586,900)</u>	<u>-</u>
Total other financing sources (uses)	719,037	719,037	719,037	-
Revenues and other financing sources over (under) expenditures and other financing uses	(4,144,195)	(572,744)	<u>\$ 2,706,718</u>	<u>\$ 1,739,076</u>
Fund balance, beginning of year				
Fund balance, end of year				
Other budget items:				
Free cash appropriations	750,000	750,000		
Prior year snow and ice deficit	(19,920)	(19,920)		
Carryover encumbrances	3,264,115	(307,336)		
Release of overlay surplus	<u>150,000</u>	<u>150,000</u>		
Total other budget items	<u>4,144,195</u>	<u>572,744</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, 2016

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

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

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The “actual” results column of the 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, 2016 are presented below:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 40,322,619
Stabilization investment income	\$ -	\$ 19,634	19,634
GAAP differences in property taxes	205,479	-	205,479
Revenues on a GAAP basis	<u>\$ 205,479</u>	<u>\$ 19,634</u>	<u>\$ 40,547,732</u>
Expenditures on a budgetary basis			\$ 38,334,938
Wood waste reclamation fund debt service	\$ (174,363)		(174,363)
Water fund budgeted allocation of overhead costs	(276,836)	-	(276,836)
Expenditures on a GAAP basis	<u>\$ (451,199)</u>	<u>\$ -</u>	<u>\$ 37,883,739</u>

See accompanying independent auditors' report.

**TOWN OF CHATHAM, MASSACHUSETTS**

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

YEAR ENDED JUNE 30, 2016

Schedule of Funding Progress

The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The unfunded actuarial accrued liability was determined using thirty-year open amortization basis increasing at 4.0%.

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Asset (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b)-(a)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll <math>[(b)-(a)]/c</math></b>
7/1/2014	\$ 102,543	\$ 16,771,422	\$16,668,879	0.61%	N/A	N/A
7/1/2012	\$ -	\$ 16,559,085	\$16,559,085	0.00%	\$ 10,316,453	160.5%
7/1/2010	\$ -	\$ 43,726,097	\$43,726,097	0.00%	\$ 18,055,803	242.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in the required supplementary information following the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Cost Method: Projected Unit Credit

Investment Rate of Return: 6.0% per annum

Medical/Drug Cost Trend Rates: 10.0% decreasing by 2.0% for 1 year and 0.5% for 6 years to an ultimate rate of 5.0% per year for participants under 65 years old. 10.0% decreasing by 0.5% for 10 years to an ultimate rate of 5.0% per year for participants over 65 years old.

Dental Cost Trend Rate: None

General Inflation Assumption: 4.0% per annum

Actuarial Value of Assets: Market Value

Amortization of UAAL: Amortization payments increasing at 4.0% over 30 years

See accompanying independent auditors' report.

**TOWN OF CHATHAM, MASSACHUSETTS**  
 REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN  
 YEAR ENDED JUNE 30, 2016

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

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO THE PENSION PLAN**

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