

TOWN OF CHATHAM, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018, 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, 2018. 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, 2018, which was audited by other auditors.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2018, 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, 2018, 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 schedules of the Town's proportionate share of other postemployment benefit liability and the Town's contributions to other postemployment liability, 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 March 1, 2019, 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

March 1, 2019

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, 2018 and 2017. We encourage readers to consider the information presented here in the Management Discussion and Analysis and the following accompanying pages.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide-financial statements. This comparison will assist the reader in understanding the long-term impact of the government's near term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide reconciliations to facilitate the comparison. The reconciliation is presented on the page immediately following the governmental funds financial statements.

The Town maintains several governmental funds. Of the funds two are considered major funds (the general fund and the wastewater facility capital project) and are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are aggregated and shown as nonmajor governmental funds. The basic governmental fund financial statements can be found on the accompanying pages of this report.

Proprietary Funds: The Town of Chatham maintains two proprietary funds. The Town uses the proprietary funds to account for its water and waste wood reclamation activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail for the water and waste wood reclamation operations. The Basic proprietary fund financial statements can be found in the accompanying pages of this report.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's functions and activities. The full accrual basis of accounting is used for fiduciary funds. The fiduciary fund financial statements provide separate information for private purpose trust funds, other post-employment benefits trust fund (OPEB), and agency funds. The fiduciary fund financial statements can be found on the accompanying pages of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the accompanying pages of this report.

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

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

Government-Wide Financial Analysis:

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

	Net Position	
	Primary Government	
	June 30, 2018	June 30, 2017
<u>Assets</u>		
Current and other assets	\$ 56,270,523	\$ 52,043,000
Capital assets, net	190,009,427	181,319,891
Total assets	246,279,950	233,362,891
Deferred outflows of resources	2,902,954	3,103,957
<u>Liabilities</u>		
Long-term liabilities	111,871,290	118,998,945
Other liabilities	37,222,263	26,008,923
Total liabilities	149,093,553	145,007,868
Deferred inflows of resources	7,779,933	6,413,312
<u>Net Position</u>		
Net investment in capital assets	118,914,639	95,386,867
Restricted	9,400,809	8,206,382
Unrestricted	(36,006,030)	(18,547,581)
Net Position	\$ 92,309,418	\$ 85,045,668

The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2018 and 2017 (as revised) by \$92,309,418 and \$85,045,668 (presented as net position), respectively. Included in these amounts are deficit balances in unrestricted net position of \$(36,006,030) and \$(18,547,581), 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 \$118,914,639 and \$95,386,867 at June 30, 2018 and 2017, indicating the amount of capital debt does not exceed the net book value of the Town's capital assets. The Town uses these capital assets to service the community; therefore they are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

Statement of Activities: The Town's total net position (primary government) increased by \$5,560,947 and increased by \$7,263,750 during fiscal year 2018 and 2017, respectively.

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

Change in Net Position		
	Governmental activities	
	June 30, 2018	June 30, 2017
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 4,643,144	\$ 4,768,242
Operating grants and contributions	1,517,512	965,952
Capital grants and contributions	1,691,119	1,349,708
General revenues:		
Property taxes	34,764,176	33,992,870
Excise taxes	3,257,812	3,196,310
Penalties and interest taxes	237,369	212,137
Loss on disposal of assets	(69,095)	-
Investment income	125,018	108,989
Miscellaneous	2,529,785	641,416
Total revenues	48,696,840	45,235,624
<u>Expenses</u>		
General government	3,717,349	3,748,020
Public safety	7,393,164	6,818,554
Education	9,651,510	9,449,939
Public works	8,345,971	6,612,685
Community planning and development	796,035	811,580
Health and human services	706,976	582,693
Culture and recreation	1,500,211	1,588,586
Coastal resources	1,569,584	1,377,019
Employee benefits	4,592,467	5,835,255
Interest on long-term debt	1,772,322	1,996,426
State and county charges	819,425	714,974
Total expenses	40,865,014	39,535,731
Change in net position before transfers	7,831,826	5,699,893
Transfers	(716,449)	(569,479)
Change in net position	7,115,377	5,130,414
Net position, beginning of year (as revised)	69,436,201	64,305,787
Net position, end of year	\$ 76,551,578	\$ 69,436,201

Total Revenues

Total governmental activities revenues increased \$3,461,216 from 2017 for the Town. The majority of this increase relates to the increase in tax revenues as a result of new growth in the current year, as well as the payment received from Harwich related the Wastewater Collection and Treatment Intermunicipal Agreement received during the year.

General Revenues

Real Estate revenues were the Town's largest revenue source at \$34,764,176 and \$33,992,870, representing 85.1% and 89.1% of general revenues for 2018 and 2017, respectively. The assessed tax valuation base increased to \$6,767,129,050 in 2018 from \$6,438,586,200 in 2017. The increase of 5% is due to increasing property values.

Program Revenues

Governmental charges for services were \$4,643,144 and \$4,768,242 representing a variety of departmental revenues for 2018 and 2017, respectively. The largest of portion relates to Public Works revenues of \$1,636,771 and \$1,683,903, for charges for services for the landfill and sewer for 2018 and 2017, respectively.

Governmental operating grants contributions of \$1,517,512 and \$965,952 represent several federal state grants restricted to specific grant conditions. This accounts for approximately 3.12% and 2.14% of the total Town governmental activities and revenues.

Expenses

For fiscal year ended June 30, 2018 and 2017, expenses for governmental activities totaled \$40,865,014 and \$39,535,731. The total expenses increased 3.36% over the prior year. There was an increase infrastructure repairs and snow & ice expenses in the public works function. Additionally, there were increases in the public safety salaries during fiscal year 2018.

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

Change in Net Position

	Business-type activities	
	June 30, 2018	June 30, 2017
Revenues		
Program revenues:		
Charges for services	\$ 2,735,080	\$ 3,057,458
Fines and forfeitures	23,027	30,924
Total operating revenues	2,758,107	3,088,382
Expenses:		
Salaries, wages, and employee benefits	484,016	636,817
Expenses	2,011,718	1,783,572
Depreciation	772,529	771,795
Total expenses	3,268,263	3,192,184
Total operating income	(510,156)	(103,802)
Non operating revenues (expenses):		
Debt service	(205,603)	(331,954)
Water tower lease	297,683	296,810
Transfers in	566,449	569,479
Total non operating revenue (expenses), net	658,529	534,335
Change in net position	148,373	430,533
Net position, beginning of year	15,609,467	15,178,934
Net position, end of year	<u>\$ 15,757,840</u>	<u>\$ 15,609,467</u>

Operating Revenues

Total business-type activities operating revenues showed an decrease of approximately \$322,000 from the prior year related to the decrease in water usage during the year.

Expenses

Total business-type activities operating expenses remained fairly constant, showed only an increase of approximately \$76,000 from the prior year.

Financial Analysis of the Government's Fund Financial Statements

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. Fund balance for governmental funds is reported in a classification hierarchy, which is based upon the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. These classifications are non-spendable, restricted, committed, assigned and unassigned fund balance.

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance surplus of approximately \$16.5 million, a decrease of approximately \$333,000 from the prior year. The governmental funds' combined ending fund balances were reported in the following classification: non-spendable fund balance of \$0.8 million, restricted fund balance of \$7.0 million, committed fund balance of \$7.1 million, assigned fund balance of \$2.2 million and an unassigned fund balance deficit of \$0.6 million.

The general fund is the chief operating fund. At the end of the current fiscal year, the general fund reported aggregate fund balance of \$16.7million, an increase of \$2.8 million from the previous year. Of this amount \$1.1 million or 6% represents restricted fund balance. Committed fund balance of \$4.5 million and assigned fund balance of \$2.2 million represents 40% 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 21.4% and 20.2%, respectively, of total general fund expenditures and revenues. Total General Fund balance represents 39.9% and 37.7%, respectively, of the same amounts.

General Fund Budgetary Highlights

The difference between the original expenditure budget of \$47.8 million and the final expenditure budget of \$43.4 million is due to \$4.5 million in encumbrances and articles being carried over to the subsequent fiscal year, as well as the \$38,272 of appropriations authorized at the Special Town Meetings during the fiscal year.

Capital Asset and Debt Administration

Capital Assets: The Town's investment in capital assets for governmental activities as of June 30, 2018 and 2017, amounted to \$165.3 million and \$162.3 million, which is net of accumulated depreciation of \$66.7 million and \$62.1 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, 2018 and 2017, amounts to \$24.7 million and \$19.0 million, which is net of accumulated depreciation of \$23.3 million and \$22.6 million. The investment in capital assets includes land; buildings; machinery and equipment and infrastructure.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	2018	2017	2018	2017
Land	\$ 35,522	\$ 33,124	\$ 3,163	\$ 3,163
Construction in progress	3,995	6,624	8,461	2,059
Buildings and related improvements	101,759	104,428	1,003	1,006
Improvements other than buildings	11,645	6,627	414	449
Equipment, machinery, and vehicles	3,768	3,474	95	102
Infrastructure	8,620	8,025	11,564	12,238
	<u>\$ 165,309</u>	<u>\$ 162,302</u>	<u>\$ 24,700</u>	<u>\$ 19,017</u>

Major capital asset events for governmental and business-type activities during 2018 include the following:

- Land acquisitions and improvements
- Cemetery expansion
- Construction costs on wastewater treatment facility
- Construction costs for the iron treatment plant
- Vehicle and equipment additions

Long-term debt: At June 30, 2018, the Town had total bonded debt outstanding of \$67,025,798 and \$4,214,100 for the governmental and business-type activities, respectively, which is a decrease of 7% for the governmental and a decrease of 15% 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 4.1% from \$33.0 million in 2018 to \$34.3 million in 2019. The increase was from new growth, debt exclusions and increased debt service.

The operating budget increased 1.7% compared to the FY 18 budget. The increase is mostly attributable to increases in employee benefits and public safety 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, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Eldredge Public Library
Assets				
Cash and cash equivalents	\$ 16,135,514	\$ 2,355,680	\$ 18,491,194	\$ 168,822
Investments	7,169,125	-	7,169,125	6,112,040
Receivables, net of allowance for uncollectibles	5,247,878	798,943	6,046,821	-
Other receivables	19,952,684	4,610,699	24,563,383	-
Capital assets, net of depreciation	165,309,311	24,700,116	190,009,427	26,142
Total Assets	213,814,512	32,465,438	246,279,950	6,307,004
Deferred Outflows of Resources				
Net difference between projected and actual OPEB earnings	10,641	-	10,641	-
Changes in proportion and differences between contributions	132,814	22,000	154,814	-
Changes in pension assumptions	2,354,499	383,000	2,737,499	-
Total Deferred Outflows of Resources	2,497,954	405,000	2,902,954	-
Liabilities				
Current liabilities:				
Warrants and salaries payable	2,073,353	43,352	2,116,705	2,746
Accrued interest	209,300	37,811	247,111	-
Provision for refund of paid taxes	656,219	-	656,219	-
Agency and other payables	160,332	-	160,332	-
Bond anticipation notes payable	24,767,081	9,274,815	34,041,896	-
Noncurrent liabilities:				
Due in one year or less	4,916,250	724,500	5,640,750	-
Due in more than one year	99,660,340	6,570,200	106,230,540	5,936
Total Liabilities	132,442,875	16,650,678	149,093,553	8,682
Deferred Inflows of Resources				
Deferred revenue	3,206,690	-	3,206,690	-
Net difference between projected and actual pension investme	1,232,667	201,000	1,433,667	-
Difference between expected and actual pension experiences	270,702	44,000	314,702	-
Changes in proportion and differences in employer pension cor	283,548	46,000	329,548	-
Changes in OPEB assumptions	509,982	-	509,982	-
Unamortized bond premiums	1,814,424	170,920	1,985,344	-
Total Deferred Inflows of Resources	7,318,013	461,920	7,779,933	-
Net Position				
Net investment in capital assets	98,428,623	20,486,016	118,914,639	-
Restricted	9,400,809	-	9,400,809	1,055,139
Unrestricted	(31,277,854)	(4,728,176)	(36,006,030)	5,243,183
Total Net Position	\$ 76,551,578	\$ 15,757,840	\$ 92,309,418	\$ 6,298,322

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			Component Unit Eldredge Public Library
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
<u>Governmental Activities:</u>								
General government	\$ 3,717,349	\$ 722,016	\$ 472,088	\$ -	\$ (2,523,245)	\$ -	\$ (2,523,245)	\$ -
Public safety	7,393,164	748,400	15,896	-	(6,628,868)	-	(6,628,868)	-
Education	9,651,510	-	83,740	256,108	(9,311,662)	-	(9,311,662)	-
Public works	8,345,971	1,636,771	724,797	1,435,011	(4,549,392)	-	(4,549,392)	-
Community planning and development	796,035	53,279	16,633	-	(726,123)	-	(726,123)	-
Health and human services	706,976	62,725	33,412	-	(610,839)	-	(610,839)	-
Culture and recreation	1,500,211	195,417	51,288	-	(1,253,506)	-	(1,253,506)	-
Coastal Resources	1,569,584	1,224,536	119,658	-	(225,390)	-	(225,390)	-
Employee benefits	4,592,467	-	-	-	(4,592,467)	-	(4,592,467)	-
State and county charges	819,425	-	-	-	(819,425)	-	(819,425)	-
Interest expense and other charges	1,772,322	-	-	-	(1,772,322)	-	(1,772,322)	-
Total Governmental Activities	40,865,014	4,643,144	1,517,512	1,691,119	(33,013,239)	-	(33,013,239)	-
<u>Business-Type Activities:</u>								
Water fund	3,439,405	3,027,254	-	-	-	(412,151)	(412,151)	-
Wood Waste Reclamation Center	34,461	28,536	-	-	-	(5,925)	(5,925)	-
Total Business-Type Activities	3,473,866	3,055,790	-	-	-	(418,076)	(418,076)	-
Total Primary Government	\$ 44,338,880	\$ 7,698,934	\$ 1,517,512	\$ 1,691,119	(33,013,239)	(418,076)	(33,431,315)	-
Component Unit								
Eldredge Public Library	\$ 956,323	\$ -	\$ 891,248	\$ -	-	-	-	(65,075)
<u>General Revenues:</u>								
Property taxes, net of allowances for uncollectibles					34,764,176	-	34,764,176	-
Excise taxes					3,257,812	-	3,257,812	-
Penalties and interest on taxes					237,369	-	237,369	-
Investment income					125,018	-	125,018	456,198
Miscellaneous					2,529,785	-	2,529,785	7,957
Loss on sale of assets					(69,095)	-	(69,095)	-
Transfers (net)					(716,449)	566,449	(150,000)	-
Total general revenues and transfers					40,128,616	566,449	40,695,065	464,155
Change in Net Position					7,115,377	148,373	7,263,750	399,080
Net Position - Beginning (as revised)					69,436,201	15,609,467	85,045,668	5,899,242
Net Position - Ending					\$ 76,551,578	\$ 15,757,840	\$ 92,309,418	\$ 6,298,322

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	<u>General</u>	<u>Wastewater Facility</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 10,071,873	\$ -	\$ 6,063,641	\$ 16,135,514
Investments	3,934,697	-	3,234,428	7,169,125
Receivables, net	2,423,180	-	3,230,098	5,653,278
Other receivables	-	19,952,684	-	19,952,684
Interfund receivables	4,534,753	-	-	4,534,753
Total Assets	<u>20,964,503</u>	<u>19,952,684</u>	<u>12,528,167</u>	<u>53,445,354</u>
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 20,964,503</u>	<u>\$ 19,952,684</u>	<u>\$ 12,528,167</u>	<u>\$ 53,445,354</u>
Liabilities				
Warrants and salaries payable	\$ 1,893,032	\$ 83,961	\$ 96,360	\$ 2,073,353
Provision for refund of paid taxes	656,219	-	-	656,219
Agency and other payables	160,332	-	-	160,332
Notes payable	-	21,667,081	3,100,000	24,767,081
Interfund payables	-	4,437,900	96,853	4,534,753
Total Liabilities	<u>2,709,583</u>	<u>26,188,942</u>	<u>3,293,213</u>	<u>32,191,738</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	92,576	-	23,408	115,984
Unavailable revenue - excise taxes	314,191	-	-	314,191
Unavailable revenue - other	1,122,609	-	3,206,690	4,329,299
Total Deferred Inflows of Resources	<u>1,529,376</u>	<u>-</u>	<u>3,230,098</u>	<u>4,759,474</u>
Fund Balances				
Nonspendable	-	-	815,302	815,302
Restricted	1,046,972	-	5,985,113	7,032,085
Assigned	2,227,527	-	-	2,227,527
Committed	4,470,609	-	2,576,985	7,047,594
Unassigned	8,980,436	(6,236,258)	(3,372,544)	(628,366)
Total Fund Balances	<u>16,725,544</u>	<u>(6,236,258)</u>	<u>6,004,856</u>	<u>16,494,142</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 20,964,503</u>	<u>\$ 19,952,684</u>	<u>\$ 12,528,167</u>	<u>\$ 53,445,354</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, 2018

Total Governmental Fund Balances	\$ 16,494,142
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	165,309,311
Certain deferred inflows of resources are accrued as revenue on a full accrual basis and are not reported in the governmental funds	(2,558,539)
Reporting on full accrual basis requires an estimate for uncollectible accounts	(405,400)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds	(104,576,590)
Certain deferred outflows of resources are reported on a full accrual basis and are not reported in the governmental funds	2,497,954
Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued	<u>(209,300)</u>
Net Position of Governmental Activities	<u><u>\$ 76,551,578</u></u>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2018

	General	Wastewater Facility	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 33,171,888	\$ -	\$ 1,862,975	\$ 35,034,863
Excise taxes	3,263,240	-	-	3,263,240
License and permits	829,113	-	250,893	1,080,006
Penalties and interest	237,369	-	-	237,369
Investment income	164,757	-	(39,740)	125,017
Charges for services	2,225,306	-	157,481	2,382,787
Special assessments	59,171	-	-	59,171
Fees and fines	47,404	-	-	47,404
Contributions and donations	-	-	293,077	293,077
Departmental and other	3,242,191	-	275,989	3,518,180
Intergovernmental	1,143,686	1,435,011	1,104,364	3,683,061
Total Revenues	<u>44,384,125</u>	<u>1,435,011</u>	<u>3,905,039</u>	<u>49,724,175</u>
Expenditures:				
Current:				
General government	2,889,211	-	3,073,181	5,962,392
Public safety	6,739,823	-	429,740	7,169,563
Education	9,135,207	-	7,255	9,142,462
Public works	7,179,388	2,932,411	414,715	10,526,514
Community planning and development	722,211	-	69,345	791,556
Health and human services	670,380	-	32,761	703,141
Culture and recreation	1,239,633	-	104,996	1,344,629
Coastal resources	1,053,573	-	277,486	1,331,059
Employee benefits	4,451,352	-	-	4,451,352
State and county tax assessments	751,526	-	-	751,526
Debt service	7,098,291	67,900	-	7,166,191
Total Expenditures	<u>41,930,595</u>	<u>3,000,311</u>	<u>4,409,479</u>	<u>49,340,385</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,453,530</u>	<u>(1,565,300)</u>	<u>(504,440)</u>	<u>383,790</u>
Other Financing Sources (Uses):				
Transfers in	1,218,870	31,626	137,723	1,388,219
Transfers out	(854,172)	-	(1,250,496)	(2,104,668)
Total Other Financing Sources (Uses)	<u>364,698</u>	<u>31,626</u>	<u>(1,112,773)</u>	<u>(716,449)</u>
Net Change in Fund Balances	2,818,228	(1,533,674)	(1,617,213)	(332,659)
Fund Balances - Beginning	13,907,316	(4,702,584)	7,622,069	16,826,801
Fund Balances - Ending	<u>\$ 16,725,544</u>	<u>\$ (6,236,258)</u>	<u>\$ 6,004,856</u>	<u>\$ 16,494,142</u>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2018

Net Change in Fund Balances - Total Governmental Fund Balances **\$ (332,659)**

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	8,090,078	
Loss on disposal of capital assets	(69,095)	
Depreciation expense	<u>(5,013,822)</u>	
Net effect of reporting capital assets		3,007,161

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

Amortization of deferred charges	(252,652)	
Amortization of bond premiums	221,792	
Repayments of capital lease obligations	189,363	
Repayments of bonds and notes	<u>5,229,829</u>	
Net effect of reporting long-term debt		5,388,332

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	(935,642)	
Net change in allowance for uncollectible accounts	<u>(22,600)</u>	
Net effect of recognition of revenue		(958,242)

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

Net difference between projected and actual pension earnings	(982,415)	
Changes in proportion and differences between employer pension contributions	(1,412,002)	
Net difference between expectations and actual pension experience	64,818	
Changes in pension assumptions	1,195,085	
Net difference between projected and actual OPEB earnings	10,641	
Changes in OPEB assumptions	<u>127,495</u>	
Net effect of pension deferred inflows and outflows		(996,378)

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>127,000</u>	
Net effect of interest accrual		127,000

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	(100)	
Net other postemployment benefits	198,530	
Net pension liability	<u>656,733</u>	
Net effect of reporting long-term liabilities		<u>880,163</u>

Change in Net Position of Governmental Activities **\$ 7,115,377**

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Activities	Total
Assets			
Cash and cash equivalents	\$ 2,080,815	\$ 274,865	\$ 2,355,680
Receivables, net of allowance for uncollectibles	798,943	-	798,943
Other receivables	4,610,699	-	4,610,699
Capital assets, net of depreciation	22,475,116	2,225,000	24,700,116
Total Assets	29,965,573	2,499,865	32,465,438
Deferred Outflows of Resources			
Changes in proportion and differences between pension contributions	22,000	-	22,000
Changes in pension assumptions	383,000	-	383,000
Total Deferred Outflows of Resources	405,000	-	405,000
Liabilities			
Current liabilities:			
Warrants and salaries payable	43,352	-	43,352
Notes payable	9,274,815	-	9,274,815
Accrued interest	34,266	3,545	37,811
Noncurrent liabilities:			
Due in one year or less	579,500	145,000	724,500
Due in more than one year	6,428,200	142,000	6,570,200
Total Liabilities	16,360,133	290,545	16,650,678
Deferred Inflows of Resources			
Net difference between projected and actual pension investment earnings	201,000	-	201,000
Difference between expected and actual pension experiences	44,000	-	44,000
Changes in proportion and differences in employer contributions	46,000	-	46,000
Unamortized bond premiums	163,951	6,969	170,920
Total Deferred Inflows of Resources	454,951	6,969	461,920
Net Position			
Net investment in capital assets	18,548,016	1,938,000	20,486,016
Unrestricted	(4,992,527)	264,351	(4,728,176)
Total Net Position	\$ 13,555,489	\$ 2,202,351	\$ 15,757,840

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, 2018

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Activities	Total
Operating revenues			
Charges for services, departmental and other	\$ 2,706,544	\$ 28,536	\$ 2,735,080
Fines and forfeitures	23,027	-	23,027
Total operating revenues	<u>2,729,571</u>	<u>28,536</u>	<u>2,758,107</u>
Operating expenses			
Salaries and wages	484,016	-	484,016
Operating expenses	1,999,718	12,000	2,011,718
Depreciation	772,529	-	772,529
Total operating expenses	<u>3,256,263</u>	<u>12,000</u>	<u>3,268,263</u>
Operating income (loss)	(526,692)	16,536	(510,156)
Non operating revenues			
Water tower lease	297,683	-	297,683
Interest expense	(183,142)	(22,461)	(205,603)
Total non operating revenue (expenses), net	<u>114,541</u>	<u>(22,461)</u>	<u>92,080</u>
Transfers			
Transfers in from other funds	400,000	166,449	566,449
Total transfers, net	<u>400,000</u>	<u>166,449</u>	<u>566,449</u>
Change in net position	(12,151)	160,524	148,373
Net position at beginning of year	13,567,640	2,041,827	15,609,467
Net position at end of year	<u><u>\$ 13,555,489</u></u>	<u><u>\$ 2,202,351</u></u>	<u><u>\$ 15,757,840</u></u>

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 JUNE 30, 2018

	Business-Type Activities		
	Water Activities	Wood Waste Reclamation Activities	Total
Cash flows from operating activities			
Receipts from customers and users	\$ 2,724,893	\$ 28,536	\$ 2,753,429
Payments to vendors	(2,811,153)	(13,200)	(2,824,353)
Payments to employees, including fringe benefits	(403,816)	-	(403,816)
Net cash provided by (used for) operating activities	(490,076)	15,336	(474,740)
Cash flows from noncapital financing activities			
Transfer in from General Fund	400,000	166,449	566,449
Water tower lease	297,683	-	297,683
Net cash provided by (used for) noncapital financing activities	697,683	166,449	864,132
Cash flows from capital and related financing activities			
Payments of long-term debt principal	(579,500)	(145,000)	(724,500)
Proceeds from interim note	4,664,116	-	4,664,116
Payments of interest costs	(176,493)	(21,449)	(197,942)
Net cash provided by (used for) capital and related financing activities	3,908,123	(166,449)	3,741,674
Cash flows from investing activities			
Purchase of capital assets	(6,454,904)	-	(6,454,904)
Net cash provided by (used for) investing activities	(6,454,904)	-	(6,454,904)
Net change in cash and cash equivalents	(2,339,174)	15,336	(2,323,838)
Cash and cash equivalents at beginning of year	4,419,989	259,529	4,679,518
Cash and cash equivalents at end of year	\$ 2,080,815	\$ 274,865	\$ 2,355,680
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ (526,692)	\$ 16,536	\$ (510,156)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	772,529	-	772,529
Changes in assets and liabilities:			
User fees receivable, net of allowance for uncollectibles	\$ (4,383)	\$ -	(4,383)
Warrants payable	(811,730)	(1,200)	(812,930)
Accrued compensated absences	3,200	-	3,200
Pension deferred inflows/outflows	184,000	-	184,000
Net pension liability	(107,000)	-	(107,000)
Total adjustments	(735,913)	(1,200)	(921,113)
Net cash provide by (used for) operating activities	\$ (490,076)	\$ 15,336	\$ (474,740)

See accompanying notes to basic financial statements.

TOWN OF CHATHAM, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2018

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund	Agency Funds
Assets			
Cash and cash equivalents	\$ 3,282	\$ 190	\$ 269,095
Investments		821,611	420,406
Total Assets	<u>3,282</u>	<u>821,801</u>	<u>689,501</u>
Liabilities			
Warrants and other payables	-	-	20,909
Agency payables	-	-	668,592
Total Liabilities	<u>-</u>	<u>-</u>	<u>689,501</u>
Net Position			
Held in trust	3,282	821,801	-
Total Net Position	<u>\$ 3,282</u>	<u>\$ 821,801</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, 2018

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund
Additions		
Interest and dividends	\$ 64	\$ 43,693
Total Additions	<u>64</u>	<u>43,693</u>
Transfers in	<u>-</u>	<u>150,000</u>
Change in net position	64	193,693
Net position at beginning of year	3,218	628,108
Net position at end of year	<u>\$ 3,282</u>	<u>\$ 821,801</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, 2018

Note 1: Organization and Reporting Entity

A. Organization

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

B. Reporting Entity

General

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

Discretely Presented Component Units—Discretely presented component units are entities that are legally separate from the Town, but are financially accountable to the Town, or whose relationship with the Town are such that exclusion would cause the Town’s financial statements to be misleading or incomplete. The Town has included The Eldredge Public Library, Inc. (the Library), a not-for-profit organization, as a Discretely Presented Component Unit because it is fiscally dependent on the Town and because the nature and significance of this relationship with the Town is such that exclusion would cause the Town’s financial statements to be misleading or incomplete. Accordingly, the Component Unit column of the government-wide financial statements of the component unit can be obtained directly from the administrative office of Eldredge Public Library, Inc., located at 564 Main Street, Chatham, MA.

Joint Ventures

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

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY2018 Payments</u>
Cape Cod Municipal Health Group c/o Group Benefit Strategies 27 Midstate Office Park Auburn, MA 01501	To provide employee insurance benefits	\$ 2,462,985
Cape Cod Regional Technical High School Route 124 Harwich, MA 02645	To provide vocational education to students 9-12 grade	\$ 194,070

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY2018 Payments</u>
Monomoy Regional School District 81 Oak Street Harwich, MA 02645	To provide education to students K-12	\$ 8,941,137
Cape Cod Regional Transit Authority 585 Main Street Dennis, MA 02638	To provide regional transportation	\$ 16,972
District Dept. of Veteran Services PO Box 429 Hyannis, MA 02601	To provide service to veterans	\$ 45,320
Pleasant Bay Resource Management Alliance 220 Sandwich Road Bourne, MA 02532	To protect the vast natural resources of Pleasant Bay	\$ 33,723

Related Organizations

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

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies in GAAP and used by the Town are discussed below.

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

Government-wide Statements

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

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

The net costs (by function, business-type activity or component unit) are normally covered by general revenue. Certain costs, such as property and liability insurance, employee fringe benefit costs and others are not allocated among the Town's functions and are included in general government expenses in the Statement of Activities. Employee fringe benefit costs are reported in a separate "Employee Benefits" function.

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

Fund Financial Statements

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

The following governmental fund types are used by the Town:

Governmental Funds:

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

Major Funds

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

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

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service and capital projects.
- Debt service funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Currently, the Town does not utilize a debt service fund.

- Capital projects funds are used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. It excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. Currently, the Town has determined the capital project funds are to account for and report capital assets to be financed through the issuance of long term debt.
- Permanent funds are used to account for resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs- that is for the benefit of the government or its citizens.

Proprietary Funds:

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

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

Fiduciary Funds:

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

- Private purpose trust funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government – wide financial statements.
- Other Post-Employment Benefit trust fund accounts for resources legally held in trust for providing health insurance benefits to retired employees of the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements. This fund was established pursuant to a Town Meeting vote in accordance with provisions of MGL Chapter 32B, section 20 which allows for the establishment of a trust fund for other post-employment benefits. Currently 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. 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 results 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 July1, 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 governmental-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.

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, 2018, the Town maintained a balance of \$2,012,714 in its stabilization fund.

The wastewater facility and other governmental funds reported deficits related to bond anticipation note borrowings for the capital projects and reimbursement grant funding not yet received.

As of June 30, 2018, the classification of the Town's fund balances can be detailed as follows:

	General Fund	Wastewater Facility	Nonmajor Governmental Funds	Total
Nonspendable:				
Nonexpendable trust funds	\$ -	\$ -	\$ 815,302	\$ 815,302
Restricted:				
General government	-	-	4,487,397	4,487,397
Public safety	-	-	428,040	428,040
Education	-	-	462,224	462,224
Public works	-	-	67,113	67,113
Health and human services	-	-	36,910	36,910
Culture and recreation	-	-	187,974	187,974
Coastal resources	-	-	280,822	280,822
Debt service	1,046,972	-	34,634	1,081,606
Assigned:				
General government	3,607	-	-	3,607
Public works	24,770	-	-	24,770
Community planning and dev.	1,020	-	-	1,020
Health and human services	2,000	-	-	2,000
Culture and recreation	7,275	-	-	7,275
Coastal resources	660	-	-	660
Subsequent year budget	2,188,195	-	-	2,188,195
Committed:				
General government	1,060,664	-	1,941,621	3,002,285
Public safety	342,847	-	-	342,847
Public works	2,151,537	-	-	2,151,537
Community planning and dev.	111,559	-	-	111,559
Health and human services	287,209	-	-	287,209
Culture and recreation	-	-	15,199	15,199
Coastal resources	516,793	-	620,165	1,136,958
Unassigned	8,980,436	(6,236,258)	(3,372,544)	(628,366)
	<u>\$ 16,725,544</u>	<u>\$ (6,236,258)</u>	<u>\$ 6,004,856</u>	<u>\$ 16,494,142</u>

D. Restricted Net Position

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

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

Capital project funds	\$	328,771
Special revenue funds:		
Community preservation fund		3,062,642
Land bank fund		1,748,186
Other special revenue funds		3,322,384.00
Permanent funds:		
Expendable		123,524
Non-expendable		815,302
	\$	<u>9,400,809</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, 2018, deposits totaled \$17,870,960 and had a carrying amount of \$18,763,761. Of the deposit amount, none of the balances were exposed to custodial credit risk at June 30, 2018. The difference between deposit amounts and carrying amounts primarily represents outstanding checks and deposits in transit.

At June 30, 2018, the carrying amount of deposits for the Component Unit totaled \$168,822. The total bank balance was covered by Federal Depository Insurance.

The Town’s investments are as follows:

Investment Type	Fair Market Value	Rating	Maturity		
			N/A	12 months or less	1 to 5 Years
Governmental Activities:					
U.S. Treasury Notes	\$ 1,511,274	Aaa	\$ -	\$ 493,757	\$ 1,017,517
Common Stock	802,653	N/A	802,653		
MMDT	2,937,310	N/A	2,937,310		
Money Market	174,174	N/A	174,174		
Certificates of Deposit	931,577	N/A		279,906	651,671
Corporate Bonds	<u>812,136</u>	A2 to Baa2	<u>-</u>	<u>104,344</u>	<u>707,792</u>
Total Governmental Activities	<u>\$7,169,125</u>		<u>\$ 3,914,137</u>	<u>\$ 878,007</u>	<u>\$ 2,376,980</u>

Fiduciary Activities:	Fair Market Value	Rating	Maturity		
			N/A	12 months or less	1 to 5 Years
U.S. Treasury Notes	\$ 157,818	Aaa	\$ -	\$ 51,562	\$ 106,256
Common Stock	661,995	N/A	661,995		
Money Market Securities	19,708	N/A	19,708		
Certificates of Deposit	97,282	N/A		29,230	68,052
Mutual Funds	220,404	N/A	220,404		
Corporate Bonds	<u>84,809</u>	A2 to Baa2	-	<u>10,896</u>	<u>73,913</u>
Total Fiduciary Activities	<u>\$ 1,242,017</u>		<u>\$ 902,108</u>	<u>\$ 91,688</u>	<u>\$ 248,221</u>

The Component Unit's investments are as follows:

Investment Type	(Level 1)		
	Fair Market Value	Rating	Maturity
Cash held for investment	938,331	N/A	N/A
Bonds	384,643	Not provided	Not provided
U. S. Bonds	665,611	Not provided	Not provided
Mutual Funds	<u>4,123,455</u>	N/A	N/A
Total component unit	<u>\$ 6,112,040</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.

The following table presents the financial assets at June 30, 2018, that the Town measures at fair value on recurring basis, by level, within the fair value hierarchy:

Investment Type	Fair Market Value	Quoted Prices		
		In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
Debt Securities:				
U.S. Treasury Notes	\$ 1,669,092	\$ 1,669,092	\$ -	\$ -
Corporate Notes	896,946	-	896,946	-
Certificates of Deposit	1,028,859	1,028,859	-	-
Total Debt Securities	3,594,897	2,697,951	896,946	-
Equity securities:				
Domestic equities	1,464,648	1,464,648	-	-
Mutual Funds	220,404	220,404	-	-
Total Equity Securities	1,685,052	1,685,052	-	-
Total investments by fair value level	5,279,949			
Investments measured at amortized cost:				
Money Market Funds	193,883			
MMDT	2,937,310			
Total investments measured at amortized cost	3,131,193			
Total investments	\$ 8,411,142			

Note 5: Receivables

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

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes	\$ 609,667	\$ (118,000)	\$ 491,667
Tax liens, deferrals and foreclosures	454,719	-	454,719
Motor vehicle and other excise	314,191	(220,400)	93,791
Departmental and other	361,334	(67,000)	294,334
Betterments and special assessments	445,153	-	445,153
Intergovernmental:			
School building assistance - due in future year	261,524	-	261,524
State highway awards - Chapter 90	3,206,690	-	3,206,690
Total	\$ 5,653,278	\$ (405,400)	\$ 5,247,878

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	\$ 255,343	\$	\$ 255,343
Unbilled water rates	568,000		568,000
Allowance for uncollectible		(24,400)	(24,400)
Totals	<u>\$ 823,343</u>	<u>\$ (24,400)</u>	<u>\$ 798,943</u>

Note 6. Other Receivables

The Massachusetts Clean Water Trust ("MCWT") interim note dated June 5, 2014 for \$24,240,000 (Note 11) was issued for the wastewater treatment facility project. The funds for borrowing will be disbursed to the Town as reimbursements for the project. The governmental activities note receivable is \$19,952,684 as of June 30, 2018.

The Massachusetts Clean Water Trust ("MCWT") interim note dated September 1, 2017 for \$9,274,815 (Note 11) was issued for the iron removal treatment facility project. The funds for borrowing will be disbursed to the Town as reimbursements for the project. The business-type note receivable is \$4,610,699 as of June 30, 2018.

Note 7: Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 33,124,494	\$ 2,397,807	\$ -	\$ 35,522,301
Construction in Process	6,624,075	3,942,402	(6,571,579)	3,994,898
Total capital assets not being depreciated	<u>39,748,569</u>	<u>6,340,209</u>	<u>(6,571,579)</u>	<u>39,517,199</u>
Capital assets being depreciated:				
Buildings and improvements	138,135,463	689,567	-	138,825,030
Improvements other than buildings	15,925,198	5,700,795	-	21,625,993
Machinery, equipment & vehicles	9,806,696	935,606	(491,667)	10,250,635
Infrastructure	<u>20,788,185</u>	<u>995,481</u>	<u>-</u>	<u>21,783,666</u>
Total capital assets being depreciated	184,655,542	8,321,449	(491,667)	192,485,324
Less accumulated depreciation for:				
Buildings and improvements	(33,707,325)	(3,358,790)	-	(37,066,115)
Improvements other than buildings	(9,297,752)	(683,338)	-	(9,981,090)
Machinery, equipment & vehicles	(6,333,593)	(572,019)	422,572	(6,483,040)
Infrastructure	<u>(12,763,291)</u>	<u>(399,675)</u>	<u>-</u>	<u>(13,162,966)</u>
Total accumulated depreciation	<u>(62,101,961)</u>	<u>(5,013,822)</u>	<u>422,572</u>	<u>(66,693,211)</u>
Governmental activities capital assets, net	<u>\$ 162,302,150</u>	<u>\$ 9,647,836</u>	<u>\$ (6,640,674)</u>	<u>\$ 165,309,312</u>

Business-type Activities:

Water Activities

Capital assets not being depreciated:

Land	\$ 938,433	\$ -	\$ -	\$ 938,433
Construction in Process	2,058,960	6,454,904	(52,496)	8,461,368
Total capital assets not being depreciated	<u>2,997,393</u>	<u>6,454,904</u>	<u>(52,496)</u>	<u>9,399,801</u>

Capital assets being depreciated:

Buildings and improvements	1,505,141	52,496	-	1,557,637
Improvements other than buildings	687,423	-	-	687,423
Machinery, equipment & vehicles	244,657	-	-	244,657
Infrastructure	33,919,302	-	-	33,919,302
Total capital assets being depreciated	<u>36,356,523</u>	<u>52,496</u>	<u>-</u>	<u>36,409,019</u>

Less accumulated depreciation for:

Buildings and improvements	(498,626)	(56,829)	-	(555,455)
Improvements other than buildings	(237,900)	(34,669)	-	(272,569)
Machinery, equipment & vehicles	(142,878)	(7,403)	-	(150,281)
Infrastructure	(21,681,771)	(673,628)	-	(22,355,399)
Total accumulated depreciation	<u>(22,561,175)</u>	<u>(772,529)</u>	<u>-</u>	<u>(23,333,704)</u>

Water activities capital assets, net	<u>\$ 16,792,741</u>	<u>\$ 5,734,871</u>	<u>\$ (52,496)</u>	<u>\$ 22,475,116</u>
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Waste Water Activities

Capital assets not being depreciated:

Land	\$ 2,225,000	\$ -	\$ -	\$ 2,225,000
Waste Wood activities capital assets, net	<u>2,225,000</u>	<u>-</u>	<u>-</u>	<u>2,225,000</u>
Business-type activities capital assets, net	<u>\$ 19,017,741</u>	<u>\$ 5,734,871</u>	<u>\$ (52,496)</u>	<u>\$ 24,700,116</u>

Component unit activities:

Capital assets being depreciated:

Equipment and furniture	\$ 400,566	\$ 754	\$ -	\$ 401,320
Less accumulated depreciation for:				
Equipment and furniture	<u>(365,579)</u>	<u>(9,599)</u>	<u>-</u>	<u>(375,178)</u>
Component unit activities capital assets, net	<u>\$ 34,987</u>	<u>\$ (8,845)</u>	<u>\$ -</u>	<u>\$ 26,142</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 179,275
Public safety	902,051
Education	509,048
Public works	2,724,693
Health and human services	15,983
Culture and recreation	410,553
Coastal resources	272,219
Total Governmental Activities	<u>\$ 5,013,822</u>

Business-type Activities:

Water/Total \$ 772,529

Component unit Activities:

Eldredge Public Library/Total \$ 9,599

Note 8: Interfund Balances and Activity

The general fund was due, \$4,437,900 from the Wastewater Facility capital project fund and \$96,853 from the Fire Station capital project fund at June 30, 2018.

Interfund transfers for the fiscal year ended June 30, 2018, consisted of the following:

Transfers In	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 1,218,870	\$ 1,218,870 (1)
Wastewater Facility		31,626	31,626 (2)
Nonmajor Governmental Fds	137,723		137,723 (3)
Water Enterprise Fund	400,000		400,000 (3)
Wood Waste Enterprise Fund	166,449		166,449 (3)
OPEB Trust Fund	150,000		150,000 (3)
Total	<u>\$ 854,172</u>	<u>\$ 1,250,496</u>	<u>\$ 2,104,668</u>

(1) Transfers to general fund to supplement operating budgets

(2) Transfers to reclassify activity between capital project funds

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

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, 2018:

Purpose	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Governmental Activities:					
MCWT Septic betterment subsidized bond, 3.98%, matures 2023	\$ 43,537	\$ -	(10,829)	\$ 32,709	\$ 10,829
Municipal purposes-refunding, 3.98%, due 2019	110,000		(55,000)	55,000	55,000
Municipal purposes, subsidized, due 2026	22,500		(2,500)	20,000	2,500
Municipal purposes-refunding, 3.0 – 5.0%, due 2019	1,610,000		(1,045,000)	565,000	565,000
Municipal purposes 3.0% - 5.0%, due 2028	1,660,000		(860,000)	800,000	800,000
Municipal purposes 3.0% - 5.0%, due 2038	9,440,000		(440,000)	9,000,000	440,000

MCWT Wastewater Treatment Facility, 2.0%, due 2028	2,436,787		(152,342)	2,284,445	155,419
Municipal Purposes, 2.0% - 5.0%, due 2037	16,380,000		(935,000)	15,445,000	935,000
Municipal Purposes-refunding 2.0% - 4.0%, due 8/1/2028	5,706,400		(303,000)	5,403,400	303,000
USDA Sewer Bond, 2.75%, due 2049	18,668,575		(583,393)	18,085,182	583,393
USDA Sewer Bond, 2.75%, due 2049	1,525,150		(47,662)	1,477,488	47,662
MCWT Wastewater Treatment Facility, 2.0%, due 2032	6,262,117		(331,465)	5,930,652	338,669
MCWT Wastewater Treatment Facility, 0.0%, due 2033	1,750,639		(108,718)	1,641,921	108,817
MCWT Wastewater Treatment Facility, 0.0%, due 2035	3,468,241		(190,233)	3,278,008	190,519
MCWT Wastewater Treatment Facility, 0.0%, due 2036	<u>3,171,680</u>		<u>(164,687)</u>	<u>3,006,993</u>	<u>164,934</u>
Total long-term bonds payable	72,255,626	-	(5,229,829)	67,025,798	4,700,742
Capital lease obligations	575,000		(189,364)	385,636	190,508
Landfill closure and monitoring	175,000		(25,000)	150,000	25,000
Compensated absences	873,900	100		874,000	-
Other postemployment benefits	17,447,483	1,468,028	(1,666,558)	17,248,953	-
Net pension liability	<u>19,548,936</u>	<u>947,845</u>	<u>(1,604,578)</u>	<u>18,892,203</u>	<u>-</u>
Total Governmental Activities	<u>\$110,875,945</u>	<u>\$2,415,973</u>	<u>\$(8,715,328)</u>	<u>\$104,576,590</u>	<u>\$ 4,916,250</u>
Business-type Activities:					
<u>Water Activities</u>					
Municipal purposes-refunding, 3.98%, due 2021	\$ 140,000	\$ -	(30,000)	\$ 110,000	\$ 30,000
Municipal purposes, 4.25%, due 2049	400,000		(12,500)	387,500	12,500
Municipal purposes, 3.0% - 5.0%, due 2028	60,000		(30,000)	30,000	30,000
Municipal purposes - refunding, 3.0% - 5.0%, due 2019	100,000		(50,000)	50,000	50,000
Municipal Purposes-refunding 2.0% - 4.0%, due 2028	1,541,600		(142,000)	1,399,600	142,000
Municipal purposes, 2.0% - 5.0%, due 2032	1,105,000		(80,000)	1,025,000	80,000
Municipal purposes, 3.0% - 5.0%, due 2038	<u>1,160,000</u>		<u>(235,000)</u>	<u>925,000</u>	<u>235,000</u>
Total long-term bonds payable	4,506,600	-	(579,500)	3,927,100	579,500
Compensated absences	2,400	3,200		5,600	-
Net pension liability	<u>3,182,000</u>	<u>221,648</u>	<u>(328,648)</u>	<u>3,075,000</u>	<u>-</u>
Total Water Activities	<u>\$ 7,691,000</u>	<u>\$ 224,848</u>	<u>\$ (908,148)</u>	<u>\$ 7,007,700</u>	<u>\$ 579,500</u>
<u>Wood Waste Activities</u>					
Municipal Purposes-refunding 2.0% - 4.0%, due 2028	\$ 142,000	\$ -	\$ -	\$ 142,000	\$ -
Land Acquisition, 3.0% - 3.5%, due 2020	290,000	-	(145,000)	145,000	145,000
Total long-term bonds payable	<u>432,000</u>	<u>-</u>	<u>(145,000)</u>	<u>287,000</u>	<u>145,000</u>
Total Waste Wood Activities	<u>\$ 432,000</u>	<u>\$ -</u>	<u>\$ (145,000)</u>	<u>\$ 287,000</u>	<u>\$ 145,000</u>
Total Business-Type Activities	<u>\$ 8,123,000</u>	<u>\$ 224,848</u>	<u>\$(1,053,148)</u>	<u>\$ 7,294,700</u>	<u>\$ 724,500</u>

Component Unit:

Compensated absences	\$ 26,600	\$ -	\$ (20,664)	\$ 5,936	\$ -
Total Component Unit	<u>\$ 26,600</u>	<u>\$ -</u>	<u>\$ (20,664)</u>	<u>\$ 5,936</u>	<u>\$ -</u>

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

Refunding Transactions – On September 1, 2016, the Town issued general obligation bonds of \$7,390,000 (par value) with variable interest rates of between 2.0% - 4.0%; the proceeds of which were applied to current and advanced refundings of debt. General obligation bonds were issued at par value with a net reoffering premium of \$953,356; after discounts of \$22,335 and issuance costs of \$89,545 the net proceeds from the refunded debt issuance were \$8,231,476. Currently refunded bonds totaling \$2,810,000 had a variable interest rate between 3.75% and 4.10% with an original maturity date of August 1, 2028. Advanced refunded bonds totaling \$4,985,000 had a variable interest rate between 3.0% and 5.0% with an original maturity date of May 15, 2026. Advanced refunded bonds totaling \$4,355,000 had a variable interest rate between 4.0% and 5.0% with an original maturity date of July 15, 2028.

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

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

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2018, including interest, are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 4,700,742	\$ 2,391,170	\$ 7,091,912
2020	4,059,373	2,243,384	6,302,757
2021	3,858,451	1,884,018	5,742,469
2022	3,588,983	1,580,856	5,169,839
2023	3,506,996	1,181,736	4,688,732
2024-2028	16,375,396	4,718,576	21,093,972
2029-2033	14,152,189	3,410,766	17,562,955
2034-2038	9,062,097	17,751,369	26,813,466
2039-2043	3,935,275	807,701	4,742,976
2044-2048	3,155,275	347,075	3,502,350
2049	631,021	17,353	648,374
Total	<u>\$ 67,025,798</u>	<u>\$ 36,334,004</u>	<u>\$ 103,359,802</u>

Business-type Activities

Year Ending June 30,	Principal	Interest	Total
2019	\$ 724,500	\$ 180,917	\$ 905,417
2020	672,000	131,300	803,300
2021	384,500	103,983	488,483
2022	379,500	87,584	467,084
2023	348,300	72,003	420,303
2024-2028	1,161,800	181,187	1,342,987
2029-2033	343,500	71,579	415,079
2034-2038	62,500	37,188	99,688
2039-2043	62,500	36,063	98,563
2044-2048	62,500	-	62,500
2049	12,500	-	12,500
Total	\$ 4,214,100	\$ 901,804	\$ 5,115,904

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, 2018:

Project	Year Authorized	Amount
Water and well pumping station	2006	\$ 560,000
Road/sidewalk/bike path	2007	150,000
Ell Street and Sky Way improvements	2009	25,000
Mill pond wells	2012	650,000
Water main replacement	2012	478,185
Wastewater treatment facility	2013	761,233
Fire station design and construction	2014	16,635
Wastewater treatment facility	2014	3,040,000
Cleaning/painting water storage tank	2017	1,200,000
Wastewater collections facility	2017	30,700,000
Waterfront facilities	2017	11,355,000
Total Authorized and Unissued Debt		\$ 48,936,053

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, 2018.

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, 2018 are summarized below:

Lease	Balance 6/30/2018
Pumper	\$ 385,636
Total	\$ 385,636

The future minimum lease payments and present value of the minimum lease payments at June 30, 2018 are as follows:

Fiscal Year Ended June 30,	Amount
2019	\$ 190,508
2020	195,129
Total minimum lease payments	\$ 385,636

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, 2018:

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Governmental Activities:</i>				
Deferred outflows of resources:				
Net difference between projected and actual pension earnings	\$1,111,096	\$ -	\$ (1,111,096)	\$ -
Changes in proportion and difference between employer contributions and proportionate share of pension contributions	150,172		(17,358)	132,814
Changes in pension assumptions	1,159,414	1,195,085		2,354,499
Net difference between projected and actual OPEB earnings		10,641		10,641
Deferred amount on bond refunding	252,652		(252,652)	-
Total deferred outflows of resources	<u>\$2,673,334</u>	<u>\$ 1,205,726</u>	<u>\$ (1,381,106)</u>	<u>\$ 2,497,954</u>
Deferred inflows of resources:				
Deferred revenue	\$2,863,298	\$ 343,392	\$ -	\$ 3,206,690
Changes in proportion and difference between employer contributions and proportionate share of contributions	335,520		(51,972)	283,548
Net difference between expected and actual pension experience	250,252	20,450		270,702
Net difference between projected and actual pension earnings		1,232,667		1,232,667
Changes in OPEB assumptions	637,477		(127,495)	509,982
Unamortized bond premiums	2,036,216		(221,792)	1,814,424
Total deferred inflows of resources	<u>\$6,122,763</u>	<u>\$ 1,596,509</u>	<u>\$ (401,259)</u>	<u>\$ 7,318,013</u>

Business-type Activities:

Deferred outflows of resources:

Net difference between projected and actual pension earnings	\$ 181,000	\$ -	\$ (181,000)	\$ -
Changes in proportion and difference between employer contributions and proportionate share of contributions	24,000	-	(2,000)	22,000
Changes in pension assumptions	189,000	194,000	-	383,000
Deferred amount on bond refunding	36,623	-	(36,623)	-
Total deferred outflows of resources	<u>\$ 430,623</u>	<u>\$ 194,000</u>	<u>\$ (219,623)</u>	<u>\$ 405,000</u>

Deferred inflows of resources:

Changes in proportion and difference between employer contributions and proportionate share of contributions	\$ 55,000	\$ -	\$ (9,000)	\$ 46,000
Net difference between expected and actual pension experience	41,000	3,000	-	44,000
Net difference between projected and actual pension earnings	-	201,000	-	201,000
Unamortized bond premiums	194,549	-	(23,629)	170,920
Total deferred inflows of resources	<u>\$ 290,549</u>	<u>\$ 204,000</u>	<u>\$ (32,629)</u>	<u>\$ 461,920</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, 2018 is as follows:

<u>Type</u>	<u>Dated</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
BAN	06/23/17	1.25%	06/22/18	\$ 1,081,600	\$ -	\$(1,081,600)	\$ -
BAN	06/22/18	3.00%	06/21/19	-	3,863,200	-	3,863,200
MCWT Interim Loan	06/05/14	2.00%	N/A	20,770,417	133,464	-	20,903,881
MCWT Interim Loan	N/A	N/A	N/A	1,435,011	-	(1,435,011)	-
Total Governmental Notes				<u>\$23,287,028</u>	<u>\$3,996,664</u>	<u>\$(2,516,611)</u>	<u>\$24,767,081</u>
MCWT Interim Loan	09/01/17	0.00%	N/A	\$ -	\$9,274,815	\$ -	\$ 9,274,815
Total Business-Type Notes				<u>\$ -</u>	<u>9,274,815</u>	<u>\$ -</u>	<u>\$ 9,274,815</u>
Total Temporary Notes Payable				<u>\$23,287,028</u>	<u>\$13,271,479</u>	<u>\$(2,516,611)</u>	<u>\$34,041,896</u>

Note 12: Employee Benefits

A. Retirement Benefits

Plan Description

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

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

Benefits Provided:

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

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

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

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

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

Governmental employers are required to pay an annual appropriation established by PERAC. The total appropriation includes the amount to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and an additional appropriation in accordance with adopted early retirement incentive programs. The total appropriations are payable July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discount rate of approximately 2%. The pension fund appropriations are allocated among employers based on covered payroll. The Town's statutorily required contribution for the year was \$1,933,226.

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, 2017 based upon the valuation date of January 1, 2018:

	<u>2017</u>
Total pension liability	\$ 1,783,937,286
Less: Plan fiduciary net position	<u>(1,103,493,815)</u>
Net pension liability	<u>\$ 680,443,471</u>

Plan fiduciary net position as a percentage of the total pension liability	61.86%
Total employer pension expense	\$ 78,392,869
Town's proportionate share of the collective net pension liability	\$ 21,967,203
Town's percentage share of the collective net pension liability	3.23%
Town's covered payroll	\$ 8,715,482
Town's proportionate share of pension expense recognized	\$ 2,488,010

The Town's proportionate share of collective net deferred outflows of resources of \$31,374,377, was \$814,396. This amount is to be recognized in future pension expense as follows:

Year ended June 30,	
2019	\$ 311,443
2020	303,640
2021	(93,785)
2022	(18,526)
2023	<u>311,624</u>
	<u>\$ 814,396</u>

Actuarial Assumptions:

Valuation Date:	January 1, 2018
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Appropriation increasing 5.28% per year through fiscal 2035 and 3.34% in fiscal 2036.

Inflation Rate:	3.25%
Net Investment Return	7.375%
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 4.00% for Group 1, 4.25% for Group 2, and 4.50% for Group 4.
Cost of Living Adjustments:	3.0% of the first \$18,000 of retirement income.
Mortality Rates:	
Pre-retirement:	The RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017.
Healthy Retiree:	The RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2017.
Disabled Retiree:	The RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally using Scale MP-2017.

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, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	17%	6.2%
International developed markets equity	16%	7.2%
International emerging markets equity	6%	9.4%
Core fixed income	12%	1.7%
High-yield fixed income	10%	4.1%
Real estate	10%	4.9%
Commodities	4%	4.7%
Hedge funds	13%	3.9%
Private equity	12%	10.3%
Total	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability was 7.375%. 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, 2017:

	1.0% Decrease to 6.375%	Current Discount Rate 7.375%	1% Increase to 8.375%
BCRA - Total Plan	\$ 892,516,460	\$ 680,443,471	\$ 502,131,729
Town's proportionate share	\$ 28,813,698	\$ 21,967,203	\$ 16,210,650

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Barnstable County Retirement Association financial report.

Changes in assumptions and plan provisions - The following assumption changes were reflected in the January 1, 2018 actuarial valuation:

- The mortality tables for healthy participants were changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2009 to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2017.
- The mortality tables for disabled participants were changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2015 to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward 1 year projected generationally using Scale MP-2017.
- The long-term salary increase assumption was lowered by 0.25%, to 4.00% for Group 1 participants, 4.25% for Group 2 participants, and 4.50% for Group 4 participants.
- The investment rate of return assumption was reduced from 7.625% to 7.375%.

There were no changes to plan provisions in the January 1, 2018 actuarial valuation.

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 166 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

Plan Description:

In addition to the pension benefits previously described, the Town provides health and dental insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the “Plan”) in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s insurance program. The Plan does not issue a stand – alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy:

The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 50 percent of the cost of current-year premiums for healthcare and dental insurance for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 50 percent of their premium costs for healthcare, dental and life insurance. For the year ended June 30, 2018.

The State of Massachusetts has passed legislation allowing municipal entities to establish a Trust for Other Postemployment Benefits (“OPEB”) under M.G.L. Chapter 32B, Section 20 for purposes of accumulating assets to pre-fund the liabilities under GASB 75. This legislation was amended effective November 9, 2016 to clarify who may adopt such a Trust and provide guidance on the ongoing operation of such a Trust. The Town of Chatham has established an irrevocable trust for the purposes of prefunding liabilities under GASB 74/75.

During 2018, the Town pre-funded future OPEB liabilities totaling approximately \$150,000 by contributing funds to the Other Postemployment Benefit Fund in excess of the pay-as-you-go required contribution. These funds are reported within the Fiduciary Funds financial statements. As of June 30, 2018, the net position of this fund totaled \$821,801.

Measurement Date:

GASB #74 and GASB #75 require the net OPEB liability to be measured as of the OPEB Plan’s most recent fiscal year-end. Accordingly, the net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016.

Employees Covered by Benefit Terms:

The following table represents the Plan’s membership at June 30, 2016:

Active members.....	123
Inactive employees or beneficiaries currently receiving benefits.....	<u>208</u>
Total.....	<u>331</u>

Components of OPEB Liability:

The following table represents the components of the Plan's OPEB liability as of June 30, 2017:

Total OPEB liability	\$ 17,842,696
Less: OPEB plan's fiduciary net position	(593,743)
Net OPEB liability	<u>\$ 17,248,953</u>

The OPEB plan's fiduciary net position as a percentage of the total OPEB liability	3.33%
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Significant Actuarial Methods and Assumptions:

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified, to be in accordance with GASB Statement #74 and #75:

Valuation Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal – Level Percentage Payroll
Investment Rate of Return:	7.0%
Inflation Rate:	3.5%
Asset Valuation Method:	Market value
Salary Increases:	Varies by length of service with ultimate rates of 6.00% decreasing over 9 years to an ultimate level of 4.25% for Group 1, 7.0% decreasing over 5 years to an ultimate level of 4.75% for Group 4 and 7.5% decreasing over 20 years to an ultimate level of 4.0% for teachers.
Discount Rate:	5.81% as of June 30, 2017 and 5.51% as of June 30, 2016
Health care Trend Rates:	
CCMHG:	Under 65: 10.5% for 1 year, then 7.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year. Over 65: 1.9% for 1 year, then 7.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year.
GIC:	Under 65: 6.8% for 1 year, then 8.5% decreasing by 0.5% each year to an ultimate level of 5.0% per year. Over 65: 1.6% then for 1 year, then 8.5 % decreasing by 0.5% each year to an ultimate level of 4.5% per year.
Dental:	2.1% for year 1, then 4.5% per year.
Part B:	4.5%
Contributions:	Retiree contributions are expected to increase with respective trend shown above.
Mortality Rates:	
Pre-retirement:	Healthy non-teachers: RP-2000 Employee Mortality Table projected generationally with Scale BB2D from 2009. Healthy teachers: RP-2014 White Collar Employee Mortality Table projected generationally with Scale MP-2016.

Postretirement: Healthy non-teachers: RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2009.
 Healthy teachers: RP-2014 White Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2016.
 Disabled non-teachers: RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2015.
 Disabled teachers: RP-2014 Healthy Annuitant Mortality Table set forward 4 years and projected generationally with Scale BB2D from 2014.

Rate of return:

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 7.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return of by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target asset allocation as of June 30, 2017 and the projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in derivation of the long-term expected investment rate of return assumption are summarized below:

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	6.44%
International developed markets equity	7.40%
International emerging markets equity	9.42%
Core fixed income	2.02%
High-yield fixed income	4.43%
Real estate	5.00%
Commodities	4.43%
Hedge funds	3.75%
Private equity	10.47%

Discount rate:

The discount rate used to measure the total OPEB liability was 5.81% as of June 30, 2017 and 5.51% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that contributions will be made in accordance with the Plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments to current plan members. Therefore the long-term expected rate of return on the OPEB plan assets was applied to all periods of projected future benefits payments as of June 30, 2017.

Sensitivity of the net OPEB liability to changes in the discount rate:

The following table presents the Plan's net OPEB liability, calculated using the discount rate of 3.58%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	1.0% Decrease to 4.81%	Current Discount Rate 5.81%	1% Increase to 6.81%
Net OPEB Liability	\$ 19,525,392	\$ 17,248,953	\$ 15,363,472

Sensitivity of the net OPEB liability to changes in the healthcare trend:

The following table presents the net other postemployment benefit liability, calculated the healthcare trend rate if it was 1-percentage-point lower or 1- percentage-point higher than the current rate.

	1.0% Decrease	Current Trend Rates	1% Increase
Net OPEB Liability	\$ 15,102,745	\$ 17,248,953	\$ 19,917,716

Changes of Assumptions:

- The discount rate was increased from 5.51% as of June 30, 2016 to 5.81% as of June 30, 2017.

Changes in Plan Provisions:

There were not any changes in plan provisions in the current year.

Summary of Significant Accounting Policies:

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts (repurchase agreements) that have a maturity at the time of purchase of one year or less, which are reported at cost.

Changes in the Net OPEB Liability:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balance as of June 30, 2016	\$ 17,869,720	\$ 422,237	\$ 17,447,483
Changes for the year:			
Service cost	480,254	-	480,254
Interest	987,774	-	987,774
Differences between expected and actual experience	-	-	-
Changes in assumptions	(637,477)	-	(637,477)
Contributions - employer	-	1,007,575	(1,007,575)
Net investment income	-	21,506	(21,506)
Benefit payments	(857,575)	(857,575)	-
Administrative expenses	-	-	-
Net changes	(27,024)	171,506	(198,530)
Balance as of June 30, 2017	<u>\$ 17,842,696</u>	<u>\$ 593,743</u>	<u>\$ 17,248,953</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended June 30, 2017, the GASB Statement #75 measurement date, the Town recognized OPEB expense of \$198,530. The Town reported deferred inflows of resources as related to OPEB in the amount of \$499,341 (see Note 10). Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	
2019	\$ 124,835
2020	124,835
2021	124,835
2022	124,836
	<u>\$ 499,341</u>

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, 2018, \$150,000 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 March 1, 2019, which is the date the financials statements were available to be issued.

Note 18: Revision of Net Position

Beginning net position of governmental activities has been revised to reflect the implementation of GASB Statement #75. The revised balances are summarized in the following table:

	07/01/2017 Previously Reported Balances	Implementation of GASB #75	07/01/2017 Revised Balances
Government-Wide Financial Statements			
Governmental activities	<u>\$ 76,249,813</u>	<u>\$ (6,813,612)</u>	<u>\$ 69,436,201</u>

Note 19: 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 #75, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, this pronouncement replaces previously issued guidance and establishes new accounting and financial reporting requirements for governments whose employees are provided other post-employment benefits. The basic financials, related notes and required supplementary information were updated to be in compliance with this pronouncement.

The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, 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. This pronouncement did not impact the basic financial statements.

The GASB issued Statement #85, *Omnibus 2017*, the objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This pronouncement did not impact the basic financial statements.

The GASB issued Statement #86, *Certain Debt Extinguishments*, the objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. This pronouncement did not impact the basic financial statements.

Future pronouncements

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

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

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

The GASB issued Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is generally required to be implemented in fiscal year 2019. This Statement redefines the term debt and may require additional disclosures. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is generally required to be implemented in fiscal year 2021. This Statement redefines the manner in which interest costs are accounted and reported. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #90, *Majority Equity Interests*, which is generally required to be implemented in fiscal year 2020. This Statement amends GASB Statements #14 and #61 regarding the accounting and financial reporting of majority equity interests. The Town will evaluate the implementation of the pronouncement as applicable.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CHATHAM, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGETARY BASIS - GENERAL FUND - BUDGET TO ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property taxes and payments in lieu	\$ 32,708,789	\$ 32,708,789	\$ 33,030,840	\$ 322,051
Excise taxes	2,570,000	2,570,000	3,263,240	693,240
Licenses and permits	875,000	875,000	829,113	(45,887)
Penalties and interest	120,000	120,000	237,369	117,369
Investment earnings	30,000	30,000	138,953	108,953
Charges for services	1,875,000	1,875,000	2,225,306	350,306
Special assessments	40,000	40,000	59,171	19,171
Fees and fines	40,000	40,000	47,404	7,404
Departmental and other	830,879	830,879	3,242,191	2,411,312
Intergovernmental	1,147,617	1,147,617	1,143,686	(3,931)
Total revenues	40,237,285	40,237,285	44,217,273	3,979,988
Expenditures:				
General government	4,327,990	3,237,452	2,889,211	348,241
Public safety	7,041,907	6,764,060	6,739,823	24,237
Education	9,135,207	9,135,207	9,135,207	-
Public works	9,111,799	7,355,203	7,179,388	175,815
Community planning and development	893,893	778,089	722,211	55,878
Health & human services	991,868	702,659	670,380	32,279
Culture and recreation	1,298,822	1,291,547	1,239,633	51,914
Coastal resources	1,628,149	1,110,697	1,053,573	57,124
Employee benefits	5,192,105	4,742,105	4,702,417	39,688
State and county assessments	751,526	751,526	751,526	-
Debt service	7,492,785	7,492,785	7,264,740	228,045
Total expenditures	47,866,051	43,361,330	42,348,109	1,013,221
Revenues over (under) expenditures	(7,628,766)	(3,124,045)	1,869,164	4,993,209
Other financing sources (uses):				
Transfers in	1,369,935	1,369,935	1,369,935	-
Transfers out	(687,723)	(687,723)	(687,723)	-
Total other financing sources (uses)	682,212	682,212	682,212	-
Revenues and other financing sources over (under) expenditures and other financing uses	(6,946,554)	(2,441,833)	<u>\$ 2,551,376</u>	<u>\$ 4,993,209</u>
Fund balance, beginning of year				
Fund balance, end of year				
Other budget items:				
Free cash appropriations	2,205,500	2,243,772		
Prior year appropriation deficit	(23,650)	(23,650)		
Carryover encumbrances	4,614,704	71,711		
Release of overlay surplus	150,000	150,000		
Total other budget items	6,946,554	2,441,833		
Net budget	\$ -	\$ -		

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, 2018

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

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

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The “actual” results column of the Budgetary Comparison Schedule—General Fund, are presented on a “budget basis” to provide a meaningful comparison with the budget. The main difference between the budget and GAAP basis is that all budgeted revenues are recorded when cash is received, except for the real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2018 are presented below:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 44,217,273
Stabilization investment income	\$ -	\$ 25,804	25,804
GAAP differences in property taxes	141,048	-	141,048
Revenues on a GAAP basis	<u>\$ 141,048</u>	<u>\$ 25,804</u>	<u>\$ 44,384,125</u>
Expenditures on a budgetary basis			\$ 42,348,109
Wood waste reclamation fund debt service payments	\$ (166,449)		(166,449)
Water fund budgeted allocation of overhead costs	(251,065)	-	(251,065)
Expenditures on a GAAP basis	<u>\$ (417,514)</u>	<u>\$ -</u>	<u>\$ 41,930,595</u>

See accompanying independent auditors' report.

TOWN OF CHATHAM, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN
YEAR ENDED JUNE 30, 2018

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, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Total pension liability	\$ 1,783,937,286	\$ 1,644,743,371	\$ 1,502,651,474	\$ 1,426,632,712
Less: Plan fiduciary net position	(1,103,493,815)	(942,162,721)	(873,002,091)	(862,069,290)
Net pension liability	<u>\$ 680,443,471</u>	<u>\$ 702,580,650</u>	<u>\$ 629,649,383</u>	<u>\$ 564,563,422</u>
Town's proportion of the net pension liability (asset)	3.23%	3.24%	3.20%	3.31%
Town's proportionate share of the net pension liability (asset)	\$ 21,967,203	\$ 22,730,936	\$ 20,169,345	\$ 18,671,253
Town's proportionate share of pension expense	\$ 2,488,010	\$ 3,447,424	\$ 2,137,470	\$ 1,829,972
Town's covered-employee payroll	\$ 8,715,482	\$ 8,656,497	\$ 8,371,238	\$ 8,674,713
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	252.0%	262.6%	240.9%	215.2%
Plan fiduciary net position as a percentage of the total pension liability	61.9%	57.3%	58.1%	60.4%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO THE PENSION PLAN

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Actuarially determined contribution	\$ 1,933,226	\$ 1,833,890	\$ 1,729,864	\$ 1,734,970
Contributions in relation to the actuarially determined contribution	\$ 1,933,226	\$ 1,833,890	\$ 1,729,864	\$ 1,734,970
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 8,715,482	\$ 8,656,497	\$ 8,371,238	\$ 8,674,713
Contributions as a percentage of covered-employee payroll	22.18%	21.19%	20.66%	20.00%

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

See accompanying independent auditors' report.

TOWN OF CHATHAM, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN
YEAR ENDED JUNE 30, 2018

Schedule of the Town's Proportionate Share of the Net Pension Liability

The Schedule of the Town's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

Schedule of the Town's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts 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 additional appropriations in accordance with adopted early retirement incentive programs. The total appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on actuarial valuation results. In addition, the Town may contribute more than the amount required.

Changes in Assumptions:

The mortality tables for healthy participants were changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2009 to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2017.

The mortality tables for disabled participants were changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2015 to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward 1 year projected generationally using Scale MP-2017.

The long-term salary increase assumption was lowered by 0.25%, to 4.00% for Group 1 participants, 4.25% for Group 2 participants, and 4.50% for Group 4 participants.

The investment rate of return assumption was reduced from 7.625% to 7.375%.

Changes in Plan Provisions:

None.

TOWN OF CHATHAM, MASSACHUSETTS
 REQUIRED SUPPLEMENTARY INFORMATION - OTHER POST-EMPLOYMENT BENEFITS
 YEAR ENDED JUNE 30, 2018
 IN ACCORDANCE WITH GASB 74

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total OPEB Liability		
Service cost	\$ 463,573	\$ 480,254
Interest	1,037,929	987,774
Changes in benefit terms	-	-
Differences between expected and actual experience	-	-
Changes in assumptions	(251,533)	(637,477)
Benefit payments	<u>(896,166)</u>	<u>(857,575)</u>
Net change in total OPEB liability	353,803	(27,024)
Total OPEB Liability - Beginning	<u>17,842,696</u>	<u>17,869,720</u>
Total OPEB Liability - Ending (a)	<u>\$ 18,196,499</u>	<u>\$ 17,842,696</u>
Plan fiduciary net position		
Contributions - employer	\$ 1,046,166	\$ 1,007,575
Net investment income	78,380	21,506
Benefit payments	(896,166)	(857,575)
Administrative expenses	<u>-</u>	<u>-</u>
Net change in fiduciary net position	228,380	171,506
Plan fiduciary net position - Beginning	593,743	422,237
Plan fiduciary net position - Ending (b)	<u>\$ 822,123</u>	<u>\$ 593,743</u>
Town's net OPEB Liability - ending (a)-(b)	<u>\$ 17,374,376</u>	<u>\$ 17,248,953</u>
Plan fiduciary net position as a percent of total OPEB liability	4.52%	3.33%
Covered-employee payroll	8,715,482	8,656,497
Plan's net OPEB liability as a percentage of covered-employee payroll	199.4%	199.3%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS

Actuarially determined contribution	\$ 1,196,492	\$ 1,156,031
Contributions in relation to the actuarially determined contribution	<u>1,046,166</u>	<u>1,007,575</u>
Contribution deficiency (excess)	<u>\$ 150,326</u>	<u>\$ 148,456</u>
Covered employee payroll	8,715,482	8,656,497
Contributions as a percentage of covered employee payroll	12.0%	11.6%

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

See accompanying independent auditors' report.

TOWN OF CHATHAM, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OTHER POST-EMPLOYMENT BENEFITS PLAN
YEAR ENDED JUNE 30, 2018

The Town administers a single-employer defined benefit healthcare plan (“the Other Post Employment Benefit Plan”). The plan provides lifetime healthcare and dental insurance for eligible retirees and their spouses through the Town’s health insurance plan, which covers both active and retired members, including teachers.

The Other Postemployment Benefit Plan

Schedule of the Town’s Proportionate Share of the Net Other Postemployment Benefit Liability

The Schedule of the Town’s Proportionate Share of the Net Other Postemployment Benefit Liability details the Plan’s net other postemployment benefit liability (asset) and the covered employee payroll. It also demonstrates the Plan’s net position as a percentage of the total liability and the Plan’s net other postemployment benefit liability as a percentage of covered payroll.

Schedule of the Town’s Contributions

The Schedule of the Town’s Contributions includes the Town’s annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The Town is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll.

Changes in Assumptions:

The discount rate was increased from 5.81% as of June 30, 2017 to 5.93% as of June 30, 2018.

Changes in Plan Provisions:

None.