

**TOWN OF HARWICH, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

**TOWN OF HARWICH, MASSACHUSETTS
 BASIC FINANCIAL STATEMENTS
 AND MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2015**

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Lynch, Malloy, Marini, LLP

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Selectmen
Town of Harwich, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Harwich, Massachusetts, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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.

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 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 the 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Town of Harwich, Massachusetts, as of June 30, 2015, 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.

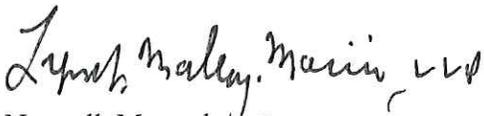
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii - x, and schedule of funding progress - other post-employment benefits (OPEB), the schedule of Contributions – Pension Plan and the budgetary comparison information, on pages 39 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2016, on our consideration of the Town of Harwich, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Town of Harwich, Massachusetts' internal control over financial reporting and compliance.



Norwell, Massachusetts
June 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF HARWICH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

As management of the Town of Harwich (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 year ended June 30, 2015.

Financial Highlights:

- The Town reported total net position for all activities of the Town of approximately \$47.5 million at the close of the most recent fiscal year. Of this amount, approximately \$65 million was classified as net investment in capital assets, \$8.5 million as restricted. Total unrestricted net position was in a deficit of \$26 million due in large part to the Town's other post-employment benefit obligation of \$16.5 million and net pension liability of \$24 million.
- The total cost of all Town services for fiscal 2015 was \$60.3 million.
- As of the end of the current fiscal year, unassigned fund balance for the general fund was \$5.6 million, or 10.8% of general fund expenditures.

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 financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, 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. It should be noted the GASB required implementation of GASB#68, *Accounting and Financial Reporting for Pensions*, which had a significant impact upon the Town's Statement of Net Position for the year ended June 30, 2015.

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.

The *statement of net position* presents information on all of the Town's assets plus deferred outflow of resources, less liabilities less deferred inflows of resources resulting in the aggregate net position of the Town. 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.

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 giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Town.

See Independent Auditor's Report.

TOWN OF HARWICH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

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

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be major fund. The Town's Community Preservation fund and Allen Harbor dredging capital project fund have been presented as major funds. The remaining funds are combined into other governmental funds in this presentation. Individual fund data for each of these non-major governmental funds is available from the Finance Director/Town Accountant's office.

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

Proprietary Funds: *Proprietary funds* focus on the determination of operating income, changes in net position and cash flows. These funds measure economic resources using the full accrual basis of accounting. The Town maintains one type of proprietary fund – an enterprise fund.

Enterprise funds are used to report activities that the government operates more like a business. These activities become the government's business-type activities in the government-wide financial statements.

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

See Independent Auditor's Report.

TOWN OF HARWICH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

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 programs.

The basic fiduciary fund financial statements can be found in 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. These notes provide additional information related to these changes which are essential in understanding the current financial statements and comparisons with previous years. The notes to the financial statements follow the basic financial statements described above.

Required supplementary information: The supplementary information presented as required by governmental accounting standards, includes certain budgetary comparison information as well as information related to the Town's retiree benefits plan for health care (OPEB).

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Harwich, net position was approximately \$31.1 million and \$16.4 million for the governmental and business-type activities, respectively at the close of the most recent fiscal year as demonstrated in the following table.

With the implementation of GASB #68, beginning net position has been restated. Prior year amounts have not been restated for the purpose of the following schedules.

	FY 2015 Governmental Activities	FY 2014 Governmental Activities	FY 2015 Business-type Activities	FY 2015 Business-type Activities
Current assets	\$ 27,804,933	\$ 24,025,128	\$ 5,851,923	\$ 4,457,398
Capital assets	<u>68,001,322</u>	<u>69,502,023</u>	<u>20,073,413</u>	<u>19,302,573</u>
Total assets	95,806,255	93,527,151	25,925,336	23,759,971
Deferred outflows of resources	<u>252,524</u>	<u>222,776</u>	<u>181,603</u>	<u>191,419</u>
Total assets and deferred outflows	<u>\$ 96,058,779</u>	<u>\$ 93,749,927</u>	<u>\$ 26,106,939</u>	<u>\$ 23,951,390</u>
Current liabilities	\$ 4,018,400	\$ 5,935,028	\$ 1,073,600	\$ 974,310
Long-term liabilities	<u>58,920,572</u>	<u>33,787,076</u>	<u>8,437,232</u>	<u>7,075,852</u>
Total liabilities	62,938,972	39,722,104	9,510,832	8,050,162
Deferred inflows of resources	2,022,998	2,094,248	211,029	221,652
Net position:				
Net investment in capital assets	53,791,322	52,837,023	11,235,181	11,929,482
Restricted	8,549,230	7,767,504		
Unrestricted	<u>(31,243,743)</u>	<u>(8,670,952)</u>	<u>5,149,897</u>	<u>3,750,094</u>
Total net position	<u>31,096,809</u>	<u>51,933,575</u>	<u>16,385,078</u>	<u>15,679,576</u>
Total liabilities, deferred inflows and net position	<u>\$ 96,058,779</u>	<u>\$ 93,749,927</u>	<u>\$ 26,106,939</u>	<u>\$ 23,951,390</u>

See Independent Auditor's Report.

TOWN OF HARWICH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

Included within the governmental activities' current assets at June 30, 2015 were \$19.2 million in cash and investments, \$8.4 million of receivables, inclusive of \$1.5 million in school construction reimbursement grants receivable in future years, and \$1.3 million for Commonwealth highway awards receivable.

Deferred outflows of resources for the Town's governmental and business-type activities were approximately \$252,524 and \$181,603 respectively. These amounts represented deferred amounts on the issuance of refunding bonds during the year which are required to be amortized over future periods, as well as the difference between actual and projected earnings related to the GASB 68 Net Pension Liability.

Governmental activities long-term liabilities include \$16.9 million in general obligation bonds, other post employment benefits liability of \$16.5 million, estimated compensated absences of \$1.0 million, estimated future landfill post-closure monitoring costs of \$296,000, and net pension liability of \$24 million. Of the total general obligation bonds, \$2.8 million is classified as current because it is due within the next fiscal year. Business-type activities long term liabilities include water bonds payable of \$8.8 million, \$69,000 of compensated absences and \$49,000 of capital leases. Of the total bonds and capital leases amounts, \$470,000 and \$49,000 has been classified as current because it is due within the next fiscal year.

Deferred inflows of resources for the Town's governmental activities and business-type activities were \$2 million and \$211,000 respectively. The amounts in the governmental activities consisted of \$1.3 million in state highway awards to be received in future periods, \$400,000 in grants to be received in future periods and \$311,000 of bond premiums associated with the issuance of refunding bonds, required to be amortized over future periods. The business-type activities' amount of \$211,000 represents unamortized bond premiums associated with the bond refunding performed in previous years.

The largest portion of the Town's combined net position reflects its \$65.0 million investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's combined net position of \$8.5 million represents resources that are subject to restrictions placed on how they may be used. The remaining balance of combined net position represents amounts which may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the Town reported an unrestricted net position balance of \$5.1 million in the business-type activities (water fund). Unrestricted net position for the Town's governmental activities reported a deficit of \$31.2 million, primarily due to the reporting of the \$16.6 million long term liability associated with other post employment benefits (OPEB) and \$24 million associated with the net pension liability.

The Town's governmental and business-type activities' net position increased from the previous year of approximately \$3 million and \$705,000 respectively. A summary of revenue, functional expenditures, and transfers, special and extraordinary items is presented below. Certain prior year amounts have been restated to correspond with the current year presentation.

See Independent Auditor's Report.

TOWN OF HARWICH, MASSACHUSETTS
Management's Discussion and Analysis
June 30, 2015

	FY 2015	FY 2014	FY 2015	FY 2014
	Governmental	Governmental	Business-type	Business-type
	Activities	Activities	Activities	Activities
Revenues:				
Charges for services	\$ 8,134,615	\$ 8,634,742	\$ 4,722,072	\$ 3,784,821
Operating grants and contributions	2,034,958	4,761,309		
Capital grants and contributions	1,862,815	912,606		
General revenues:				
Property taxes	43,534,346	40,742,739		
Excise taxes	2,918,553	2,715,540		
Penalties and interest	325,349	374,774		
Grants and contributions not restricted and miscellaneous	578,188	646,248		
Investment income	<u>40,044</u>	<u>77,492</u>	<u>958</u>	<u>-</u>
Total revenues	<u>59,428,868</u>	<u>58,865,450</u>	<u>4,723,030</u>	<u>3,784,821</u>
Expenses:				
General government	2,540,534	2,416,181		
Public safety	8,712,867	8,132,523		
Education	22,333,529	22,751,503		
Public works	8,993,671	7,954,416	4,017,528	3,779,970
Human services	1,483,389	1,509,229		
Culture and recreation	3,636,368	3,754,906		
Interest and other costs	624,347	662,307		
Employee benefits and other insurance	7,359,800	10,712,209		
State and county charges	<u>642,174</u>	<u>627,779</u>	<u>-</u>	<u>-</u>
Total expenses	<u>56,326,679</u>	<u>58,521,053</u>	<u>4,017,528</u>	<u>3,779,970</u>
Transfers and extraordinary items:				
Transfer - contribution to OPEB Trust Fund	<u>(100,000)</u>	<u>(303,513)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>\$ 3,002,189</u>	<u>\$ 40,884</u>	<u>\$ 705,502</u>	<u>\$ 4,851</u>

Key elements of this increase are as follows:

Revenues:

- ◆ Property taxes represent 73.2% of the Town's governmental activities' revenue and increased approximately \$2.8 million over the previous year. Property tax growth represents a combination of an annual increase, allowed in the levy under Proposition 2 ½, and new growth, as well as debt and capital exclusions authorized by the Town voters.
- ◆ Charges for services make up the second largest revenue segment of governmental activities representing 13.7% of the Town's governmental activity revenue. Total charges for services decreased approximately \$500,000 over the previous year due to the decrease in commitments for the Allen Harbor dredging project.

Expenses:

- ◆ Education related expenditures of \$22.3 million accounted for 39.7% of the Town's governmental activities. These costs related primarily to the Town's assessments from the Monomoy Regional School District and Cape Cod Vocational High School.

See Independent Auditor's Report.

TOWN OF HARWICH, MASSACHUSETTS
Management's Discussion and Analysis
June 30, 2015

- ◆ Public works accounted for 16.0% of the Town's governmental activities. This classification increased approximately \$1.04 million, due to increase in appropriated public work related expenditures and maintenance projects, including increases in snow and ice related expenditures and depreciation expense.
- ◆ Culture and recreation expenditures of \$3.6 million, accounting for 6.5% of total expenditures, decreased approximately \$119,000 from the previous year, primarily due to Community Preservation Fund expenses from the prior year..

Transfers and extraordinary items:

- ◆ The Town transferred \$100,000 into the OPEB Trust fund that was established pursuant to Massachusetts General Law in May 2013.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$15.6 million, an increase of \$3.3 million from the prior year, primarily due to a \$2.56 million dollar increase in property taxes, and \$1.4 million increase in the community preservation fund due to a reduction in current year project expenditures, which was reduced by expenditures related to the Wychmere Pier Reconstruction. The governmental funds' combined ending fund balances were reported in the following classifications: nonspendable balance of \$157,000, restricted fund balance of \$8.1 million, committed fund balance of \$2.6 million; assigned fund balance of \$165,000 and unassigned fund balance of \$4.6 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 \$8.1 million, an increase of \$2.65 million from the previous year. Committed fund balance of \$2.3 million represents 28.0% of total general fund balance. Unassigned fund balance of \$5.6 million represents 69.2% of total general fund balance, and includes \$1.1 million which the Town maintains in a stabilization fund. 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. General fund unassigned fund balance represents approximately 10.3% and 10.8%, respectively of total general fund expenditures and revenues, while total general fund balance represents 14.9% and 15.6%, respectively, of the same amounts.

See Independent Auditor's Report.

TOWN OF HARWICH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

General Fund Budgetary Highlights

The Town adopts an annual expenditure budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget. The difference between the original expenditure budget of \$54.6 million and the amended final budget of \$53.8 million is approximately \$800,000. The net change is due to additional appropriations at a special town meeting of \$535,000 to cover snow and ice deficits and approximately, \$60,000 for public safety expenditures and \$1.5 million of continuing appropriations (warrant articles) and encumbrances being carried into future period and reducing the original budget.

Capital Asset and Debt Administration

The Town annually prepares a capital budget for the upcoming fiscal year and a seven-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

Capital assets - The Town's investment in capital assets for governmental activities as of June 30, 2015 is \$68 million, which was net of accumulated depreciation of \$107.9 million. The Town's investment in capital assets for business-type activities (water fund) as of June 30, 2015 is \$20 million, which is net of accumulated depreciation of \$27.2 million. The investment in capital assets includes land; buildings; improvements; machinery and equipment.

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

Capital assets	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2015</u>	<u>2015</u>	<u>2015</u>	<u>2015</u>
Land	\$ 21,486	\$ 21,486	\$ 1,506	\$ 1,506
Construction in Progress	2,240	770		372
Buildings and related improvements	23,578	25,128	6,298	4,192
Improvements other than buildings	1,553	1,616		
Equipment, machinery, vehicles	3,186	3,013	1,561	1,725
Infrastructure	<u>15,958</u>	<u>17,489</u>	<u>10,708</u>	<u>11,507</u>
	<u>\$ 68,001</u>	<u>\$ 69,502</u>	<u>\$ 20,073</u>	<u>\$ 19,302</u>

Current year governmental activity additions consisted primarily to Construction in Progress related to the Wychmere Pier Reconstruction and purchases of an ambulance and vehicle replacements for the Public Works department.

Long-term debt - At the end of the current fiscal year, the Town reported bonded debt outstanding associated with its governmental activities of \$16.9 million. This is compared to \$19.8 million in the prior year. The Town reported bonded debt associated with its business-type activities (water fund) of \$8.8 million, compared to \$7.4 million the prior year. During the year the Town issued \$1.8 million of bonds associated with the Town's enterprise-type activities. All of the Town's governmental and business-type activities' debt is a general obligation of the Town.

The Town maintains a AA+ bond rating from Standard & Poor's Investor's Service.

See Independent Auditor's Report

TOWN OF HARWICH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

Economic Factors and Next Year's Budgets and Rates

- The Town's fiscal year 2016 general fund operating budget was approximately \$56 million, an increase of \$4.5 million, or 8.7% over fiscal year 2015 operating budget. The operating budget includes approximately \$22.9 million and \$1.33 million in assessments to the Monomoy Regional School District and Cape Cod Regional Technical High School respectively. The increase is due primarily to increases in debt and operating assessments for Monomoy Regional School District.
- The total fiscal year 2016 tax levy was approximately \$43.7 million, an increase of \$1.5 million from the total tax levy raised in fiscal year 2015 of \$42.2 million.
- Town Meeting approved capital exclusions and debt exclusions articles in May 2015 of \$714,000 and \$1.64 million, respectively.
- The Town's fiscal year 2015 total water fund appropriations was approximately \$4.15 million, an increase of \$250,000 over the prior year.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town of Harwich, Attn: Finance Director/Town Accountant, 732 Main St., Harwich, MA 02645.

See Independent Auditor's Report.

BASIC FINANCIAL STATEMENTS

TOWN OF HARWICH, MASSACHUSETTS

Statement of Net Position

June 30, 2015

	Primary Government		
	Governmental	Business-type	Totals
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 18,508,731	\$ 3,862,936	\$ 22,371,667
Investments	672,204		672,204
Receivables, net of allowance for uncollectible	8,445,641	1,988,987	10,434,628
Due from agency fund	19,745		19,745
Inventories	158,612		158,612
Capital assets, net of accumulated depreciation	68,001,322	20,073,413	88,074,735
Total assets	95,806,255	25,925,336	121,731,591
DEFERRED OUTFLOWS OF RESOURCES			
Net difference between projected and actual pension earnings	41,172		41,172
Deferred amount on bond refunding	211,352	181,603	392,955
Total deferred outflows of resources	252,524	181,603	434,127
Total assets and deferred outflows of resources	\$ 96,058,779	\$ 26,106,939	\$ 122,165,718
LIABILITIES			
Accounts payable	\$ 332,787	\$ 263,203	\$ 595,990
Salaries and withholding payable	688,176	32,049	720,225
Accrued interest payable	161,980	57,621	219,601
Provision for refund of paid taxes	173,000		173,000
Notes payable	2,203,000	200,000	2,403,000
Other current liabilities	459,457	1,875	461,332
Noncurrent liabilities:			
Due within one year	2,820,858	518,852	3,339,710
Due in more than one year	56,099,714	8,437,232	64,536,946
Total liabilities	62,938,972	9,510,832	72,449,804
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue	1,711,805		1,711,805
Unamortized bond premiums	311,193	211,029	522,222
Total deferred inflows of resources	2,022,998	211,029	2,234,027
NET POSITION			
Net investment in capital assets	53,791,322	11,235,181	65,026,503
Restricted	8,549,230		8,549,230
Unrestricted	(31,243,743)	5,149,897	(26,093,846)
Total net position	31,096,809	16,385,078	47,481,887
Total liabilities, deferred inflow of resources and net position	\$ 96,058,779	\$ 26,106,939	\$ 122,165,718

The accompanying notes are integral part of these financial statements.

TOWN OF HARWICH, MASSACHUSETTS
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General government	\$ 2,540,534	\$ 454,197	\$ 996,778	\$	\$ (1,089,559)	\$	\$ (1,089,559)
Public safety	8,712,867	2,247,735	16,419		(6,448,713)		(6,448,713)
Education	22,333,529		25,998		(22,307,531)		(22,307,531)
Public works	8,993,671	2,111,827	4,430	1,862,815	(5,014,599)		(5,014,599)
Human services	1,483,389	193,773	399,655		(889,961)		(889,961)
Culture and recreation	3,636,368	3,127,083	148,537		(360,748)		(360,748)
Employee benefits and other insurance	7,359,800		6,778		(7,353,022)		(7,353,022)
Interest and other costs	624,347		436,363		(187,984)		(187,984)
State and county charges	642,174				(642,174)		(642,174)
Total governmental activities	56,326,679	8,134,615	2,034,958	1,862,815	(44,294,291)		(44,294,291)
Business-type activities							
Water	4,017,528	4,722,072				704,544	704,544
Total business-type activities	4,017,528	4,722,072				704,544	704,544
Total primary government	\$ 60,344,207	\$ 12,856,687	\$ 2,034,958	\$ 1,862,815	(44,294,291)	704,544	(43,589,747)
General revenues:							
Property taxes and surcharge, net of allowances for uncollectibles					43,534,346		43,534,346
Excise taxes, net of allowances for uncollectibles					2,918,553		2,918,553
Penalties and interest on taxes					325,349		325,349
Grants, contributions and revenues not restricted to specific programs					578,188		578,188
Investment earnings					40,044	958	41,002
Transfer - contribution to Other Post-Employment Benefit Trust Fund					(100,000)		(100,000)
Total general revenues and transfers					47,296,480	958	47,297,438
Change in net position					3,002,189	705,502	3,707,691
Net position - beginning of year (restated)					28,094,620	15,679,576	43,774,196
Net position - end of year					\$ 31,096,809	\$ 16,385,078	\$ 47,481,887

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

TOWN OF HARWICH, MASSACHUSETTS
 Balance Sheet - Governmental Funds
 June 30, 2015

	General Fund	Community Preservation Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 9,586,269	\$ 4,335,158	\$ 4,587,304	\$ 18,508,731
Investments			672,204	672,204
Receivables	6,592,411	61,031	2,348,946	9,002,388
Due from agency & other governmental funds	19,745			19,745
Interfund receivable	55,439			55,439
Inventories	1,866		156,747	158,613
Total assets	<u>\$ 16,255,730</u>	<u>\$ 4,396,189</u>	<u>\$ 7,765,201</u>	<u>\$ 28,417,120</u>
LIABILITIES				
Accounts payable	\$ 332,787	\$	\$	\$ 332,787
Salaries and withholding payable	688,176			688,176
Provision for refund of paid taxes	173,000			173,000
Notes payable			2,203,000	2,203,000
Interfund payable			55,439	55,439
Other liabilities	459,457			459,457
Total liabilities	1,653,420		2,258,439	3,911,859
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue	6,456,802	61,031	2,353,045	8,870,878
Total deferred inflows of resources	6,456,802	61,031	2,353,045	8,870,878
FUND BALANCE				
Nonspendable			156,746	156,746
Restricted	59,735	4,335,158	3,700,662	8,095,555
Committed	2,282,380		296,927	2,579,307
Assigned	165,245			165,245
Unassigned	5,638,148		(1,000,618)	4,637,530
Total fund balance	<u>8,145,508</u>	<u>4,335,158</u>	<u>3,153,717</u>	<u>15,634,383</u>
Total liabilities, deferred inflow of resources, and fund balance	<u>\$ 16,255,730</u>	<u>\$ 4,396,189</u>	<u>\$ 7,765,201</u>	<u>\$ 28,417,120</u>

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

Total fund balance of governmental funds	\$ 15,634,383
Capital assets used in governmental activities are not financial resources and are not reported on the fund basis.	68,001,322
Certain deferred inflows of resources are accrued as revenue on a full accrual basis and not in funds, net of estimated uncollectible amounts.	6,602,326
Long term liabilities are not due and payable in the current period and are not included in funds.	(58,920,572)
Reporting liabilities on full accrual basis requires associated accrued interest, net of related subsidies and deferred inflows of resources associated with debt issuance.	(261,822)
Certain deferred outflows of resources are reported on a full accrual basis.	<u>41,172</u>
Net position of governmental activities	<u>\$ 31,096,809</u>

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

TOWN OF HARWICH, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Community Preservation Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes and payments in lieu	\$ 42,084,856	\$ 1,246,935	\$	\$ 43,331,791
Excise taxes	2,895,425		25,346	2,920,771
Licenses, fees and permits	1,688,049			1,688,049
Penalties and interest	306,503	1,370		307,873
Investment earnings	25,523	4,415	18,949	48,887
Charges for services	1,489,762		607,035	2,096,797
Golf course fees	1,736,999			1,736,999
Wharfage fees	33,474			33,474
Sanitation fees	2,156,538			2,156,538
Recreational, and other departmental	679,987		568,216	1,248,203
Contributions			117,968	117,968
Intergovernmental	1,544,075	615,111	1,981,493	4,140,679
Total revenues	54,641,191	1,867,831	3,319,007	59,828,029
Expenditures:				
Current:				
General government	2,553,852		135,136	2,688,988
Public safety	8,413,636		19,950	8,433,586
Education	21,318,513		25,253	21,343,766
Public works	5,490,575	455,975	3,108,085	9,054,635
Human services	1,192,866		110,097	1,302,963
Culture and recreation	3,072,623		321,592	3,394,215
Employee and other insurance	6,084,357		22,086	6,106,443
State and county assessments	642,174			642,174
Debt service:				
Principal	2,812,358			2,812,358
Interest and other charges	662,513			662,513
Total expenditures	52,243,467	455,975	3,742,199	56,441,641
Excess (deficiency) of revenues over expenditures	2,397,724	1,411,856	(423,192)	3,386,388
Other financing sources (uses):				
Transfers in	1,190,258	627,345	207,357	2,024,960
Transfers out	(934,702)	(683,875)	(506,383)	(2,124,960)
Total other financing sources and uses	255,556	(56,530)	(299,026)	(100,000)
Net change in fund balances	2,653,280	1,355,326	(722,218)	3,286,388
Fund balances - beginning	5,492,228	2,979,832	3,875,935	12,347,995
Fund balances - ending	<u>\$ 8,145,508</u>	<u>\$ 4,335,158</u>	<u>\$ 3,153,717</u>	<u>\$ 15,634,383</u>

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

TOWN OF HARWICH, MASSACHUSETTS
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
 to Statement of Activities
 For the Year Ended June 30, 2015

Revenues and other financing sources over (under) expenditures and other financing uses	\$	3,286,388
<p>Governmental funds report capital outlays as expenditures, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the Statement of Activities.</p>		
Capital outlays during the fiscal year		3,019,200
Depreciation recorded for the fiscal year		(4,519,901)
<p>Revenues are recognized on the modified accrual basis of accounting in the fund financial statements, but are recognized on the accrual basis of accounting in the government-wide financial statements.</p>		
Net change in deferred revenue		(292,495)
Net change in allowance for uncollectible accounts		(85,337)
<p>The issuance and repayment of long-term debt are recorded as other financing sources or uses in the fund financial statements, but have no effect on net assets in the government-wide financial statements. Also, governmental funds report issuance costs, premiums, discounts and similar items as expenditures when paid, whereas these amounts are deferred and amortized on a government-wide basis.</p>		
Principal payments on long-term debt		2,812,358
Amortization on bond premiums		16,379
Deferred amount on bond refunding		(11,424)
<p>The fund financial statements record interest on long-term debt when due and revenue from related subsidies when received. The government-wide financial statements report interest on long-term debt and revenue on subsidies when incurred.</p>		
Net change in accrued interest expense		33,211
Net change in accrued revenue on subsidies		(21,321)
<p>Certain deferred outflows of resources are reported on the government-wide financial statements to be amortized over future periods, and accordingly are not recognized in the fund basis financial statements</p>		
Net difference between projected and actual pension earnings		41,172
<p>Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. Net changes in liabilities are as follows:</p>		
Compensated absences		(28,600)
Landfill closure		18,500
Net Pension Liability		(201,741)
Other post employment benefits		(1,064,200)
Change in net position of governmental activities	\$	<u>3,002,189</u>

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

TOWN OF HARWICH, MASSACHUSETTS
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-type Activities	Water Enterprise
ASSETS		
Cash and cash equivalents	\$ 3,862,936	
Receivable, net of allowance for uncollectibles	1,988,987	
Capital assets, net of accumulated depreciation	20,073,413	
Total assets	25,925,336	
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on bond refunding	181,603	
Total deferred outflow of resources	181,603	
Total assets and deferred outflows of resources	\$ 26,106,939	
LIABILITIES		
Accounts payable	\$ 263,203	
Salaries and wages and withholdings payable	32,049	
Notes payable	200,000	
Accrued interest payable	57,621	
Other liabilities	1,875	
Total current liabilities	554,748	
Non-current liabilities:		
Due within one year	518,852	
Due in more than one year	8,437,232	
Total non-current liabilities	8,956,084	
Total liabilities	9,510,832	
DEFERRED INFLOWS OF RESOURCES		
Unamortized bond premiums	211,029	
Total deferred inflow of resources	211,029	
NET POSITION		
Net investment in capital assets	11,235,181	
Unrestricted	5,149,897	
Total net position	16,385,078	
Total liabilities, deferred inflows of resources and net position	\$ 26,106,939	

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

TOWN OF HARWICH, MASSACHUSETTS
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2015

	Business-type Activities
	Water Enterprise
Operating revenues:	
Charges for services	\$ 4,465,583
Departmental and other	256,489
Total operating revenues	4,722,072
Operating expenses:	
Salaries, wages and employee benefits	1,512,549
Repairs, maintenance, supplies and services	1,214,559
Depreciation	1,102,271
Total operating expenses	3,829,379
Operating income	892,693
Non operating revenues (expenses):	
Interest and investment revenue	958
Interest expense, net amortization	(188,149)
Total non-operating revenue (expenses)	(187,191)
Change in net position	705,502
Net position at beginning of year	15,679,576
Net position at end of year	\$ 16,385,078

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

TOWN OF HARWICH, MASSACHUSETTS
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2015

	Business-type Activities
	Water Enterprise Totals
Cash flows from operating activities:	
Receipts from customers, users and others	\$ 4,062,421
Payments to vendors	(1,037,098)
Payments to employees, including fringe benefits	<u>(1,502,239)</u>
Net cash provided (used) in operating activities	1,523,084
Cash flows from capital and related financing activities:	
Payments of long-term debt principal	(470,000)
Proceeds from borrowing	1,878,232
Payment of temporary debt	(50,000)
Payments on capital leases	(46,965)
Capital asset acquisitions	(1,873,111)
Payments of interest costs	<u>(226,131)</u>
Net cash provided (used) by capital and related financing activities	(787,975)
Net change in cash and cash equivalents	735,109
Cash and cash equivalents at beginning of year	<u>3,127,827</u>
Cash and cash equivalents at end of year	<u>\$ 3,862,936</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 892,693
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,102,271
Changes in assets and liabilities:	
User fees receivable, net of allowance for collectibles	(659,416)
Accounts payable	177,461
Payroll payable and amounts withheld from employees	<u>10,075</u>
Total adjustments	<u>630,391</u>
Net cash provided by operating activities	<u>\$ 1,523,084</u>
Supplementary schedule of noncash capital and related financing activities:	
Amortization of bond premiums	\$ 10,623
Amortization of deferred amount on bond refunding	<u>(9,816)</u>
	<u>\$ 807</u>

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

TOWN OF HARWICH, MASSACHUSETTS

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2015

	Private Purpose Trust Funds	Other Post-Employment Benefits Trust Fund	Agency Accounts
<u>ASSETS</u>			
Cash and cash equivalents	\$ 110,470	\$ 404,673	\$ 9,126
Investments	355,755		
Detail receivables			43,956
Total assets	\$ 466,225	\$ 404,673	\$ 53,082
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$	\$	\$ 33,337
Due to General Fund			19,745
Total liabilities			53,082
<u>NET POSITION</u>			
Amounts held in trust	466,225	404,673	
Total liabilities and net position	\$ 466,225	\$ 404,673	\$ 53,082

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

TOWN OF HARWICH, MASSACHUSETTS
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2015

	Private Purpose Trust Funds	Other Post-Employment Benefits Trust Fund
Additions:		
Interest, dividends and market value change	\$ 10,505	\$ 1,160
Total additions	10,505	1,160
Deductions:		
Human services	700	
Total deductions	700	
Transfers:		
Transfers in		100,000
		100,000
Change in net position	9,805	101,160
Net position - beginning	456,420	303,513
Net position - ending	<u>\$ 466,225</u>	<u>\$ 404,673</u>

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

NOTES TO FINANCIAL STATEMENTS

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Note 1. Organization and Reporting Entity

A. Organization

The Town of Harwich, Massachusetts (the "Town"), was incorporated in 1694. The Town operates under a Town Meeting form of government. The Town's operations include police and fire protection, parks, library and recreation, public works and general administrative services. In addition, the Town owns and operates a golf course; operates facilities at three harbors; operates a water system. The Town belongs to a regional school district for education.

B. Reporting Entity

General

The accompanying financial statements present the Town of Harwich, 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. Pursuant to these criteria, the Town did not identify any component units requiring inclusion in the accompanying financial statements.

Joint Ventures

The Town has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specific recipients. The following is a list of the Town's significant joint ventures, their purpose, and the annual assessment. Financial statements and additional operational information may be obtained from each the joint ventures by contacting each of them directly. The Town also participates a cost sharing, joint purchasing group for health insurance and a cost sharing retirement system. See the accompanying notes.

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY 2015 payments</u>
Monomoy Regional School District 425 Crowell Road Chatham, MA 02633	To provide education for grades K-12 For Towns of Harwich and Chatham	\$ 20,070,813
Cape Cod Regional Technical High School Route 124 Harwich, MA 02645	To provide secondary vocational education for member Towns	\$ 1,248,330
Cape Cod Commission 3225 Main Street P.O. Box 226 Barnstable, MA 02630	Regional land use planning agency	\$ 199,357
Cape Cod Regional Transit Authority 585 Main Street Dennis, MA 02638	To provide public transportation	\$ 90,846
Town Department of Veteran Services PO Box 429 Hyannis, MA 02601	To provide veterans' services	\$ 33,054
Pleasant Bay Resource Management Alliance P.O. Box 1584 Harwich, MA 02645	To protect the vast natural resources of the bay	\$ 16,855

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

The Monomoy Regional School District (the District) is governed by an eight (8) member school committee consisting of four (4) elected representatives from the two member town. The District is organized and operated pursuant to Massachusetts General Laws and a regional agreement. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating, capital, transportation and debt service costs.

The Cape Cod Regional Technical High School (the District) is governed by a twenty-two (22) member school committee elected from the twelve (12) member towns. The District is organized and operated pursuant to Massachusetts General Laws and a regional agreement. The Town of Harwich has two (2) representatives on the District's school committee. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating, capital, transportation and debt service costs.

Related Organizations

The Harwich 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 established 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 and other 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, library and recreation, public works, regional school Towns participation (education), and general administrative services are classified as governmental activities. The Town's water operations and related capital projects are classified as business-type activities.

Government-wide Statements

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets, receivables and deferred outflows of resources as well as long-term liabilities, deferred inflows of resources and other liabilities reported on a full accrual basis. The Town's net position is reported in three parts—net investment in capital assets, restricted; and unrestricted. The Town first utilizes restricted resources to finance qualifying activities.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's governmental functions and business-type activities. 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 or a business-type activity. 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 are normally covered by general revenue.

Certain costs, such as property and liability insurance, employee fringe benefit costs, among others are not allocated among the Town's functions and are included in employee benefits and other insurance expenses in the Statement of Activities.

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 available to the Town:

Major Funds

- General Fund is the primary operating fund of the Town. It is used to account for and report all financial resources not accounted for and reported in another fund.
- Community Preservation Fund is a special revenue fund used to account for and report financial resources restricted or committed to expenditure for activities related to open space, historic resources and community housing. Financial resources consist primarily of property tax surcharge and contributions from the Commonwealth of Massachusetts.

Non-major governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column of the governmental funds financial statements. These have been aggregated as "other governmental funds" in the fund financial statements. The following describes the general use of these fund types:

- Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted, committed to expenditures for specified purposes other than debt service or capital projects.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

- Debt service funds are used to account for and report 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 and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Currently the Town has determined that capital project funds are to account for and report capital assets to be financed through the issuance of debt, except those associated with its water operations which are accounted for in the water enterprise fund for financial reporting purposes. Acquisition of other capital assets are recorded in the fund from which resources were utilized.
- Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town's programs.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net 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 a pricing policy designed to recover similar costs. Although debt related to the water fund is not secured solely with water fund net revenues, the Town has elected to report it as an enterprise fund for financial reporting purposes as it is maintained in accordance with state guidance.
- 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. The Town is currently not using any 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 proprietary funds. The following is a description of the fiduciary funds of the Town:

- Private purpose trust funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds can not 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 the 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 Town Meeting vote in accordance with provisions of MGL Chapter 32B, section 20 which allows for establishment of a trust fund for other post-employment benefits.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

- Agency funds are used to hold funds on behalf of parties other than the Town, including federal, state agencies and other third parties. 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. Government Accounting Standards Board (GASB) pronouncements 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 nonmajor funds are combined in a column in the fund financial statements as "other governmental funds".

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

B. Measurement Focus and Basis of Accounting

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

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

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

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

C. Cash and Investments

The Town has not adopted formal deposit and investment policies. The Town Treasurer manages funds pursuant to Massachusetts General Laws.

For the purpose of the Statement of Net Position, Balance Sheet and proprietary funds' Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts. Any certificates of deposit have been classified as investments for financial reporting purposes.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Investments are reported at fair value, which is determined using selected bases. Short-term investments with maturity dates of not more than ninety days from date of purchase are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Certificates of deposit are reported at carrying value, which reasonably estimates fair value. Additional cash and investment information, and fair values are presented in these notes.

D. Interfund Receivables and Payables

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

E. Receivables

Receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The Town classifies outstanding personal property taxes and motor vehicle and boat excise three or more years old as uncollectible for financial reporting purposes. The Town estimates 2% of outstanding water charges and 35% of ambulance charges to be uncollectible. Outstanding real estate taxes are secured by tax liens, and therefore the Town considers such receivables to be fully collectible.

F. Inventories

Inventory items are valued at cost (first in, first out) or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than consumed. Inventories consists primarily of golf related items to be sold at the golf course and are reported in a special revenue fund.

G. Capital Assets

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

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. The Town maintains a general capitalization threshold of \$25,000 per asset.

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

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation netted against the cost of capital assets 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
➤ Infrastructure	25-50 years

Fund Financial Statements

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

H. 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. 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. These amounts are reported in government-wide and fund financial statements based upon the nature of the items.

I. Liabilities

Liabilities represent *present obligations* to sacrifice resources for which the government has *little or no discretion to avoid*. The primary focus is on the obligation for the government to perform. The accounting treatment for these obligations depends on whether they are reported in the government-wide or fund financial statements.

Current liabilities are reported in both the fund and government-wide financial statements. Current liabilities represent obligations incurred in the operating cycle for acquisition goods, services, accruals for salaries and wages, and other obligations due or generally expected to be liquidated within one year from the balance sheet date. Government-wide financial statements also report other current liabilities such as accrued interest, which is reported on a full accrual basis.

Generally, all noncurrent (long term) liabilities are not reported as liabilities in the fund financial statements, but are reported in the government-wide statements. Such obligations consist primarily of such obligations as bonds payable, capital leases, compensated absences, estimated landfill post-closure monitoring and other post-employment obligations.

J. 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 and in the business-type activities.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

K. Equity Classifications

Government-wide Statements

Equity is classified as net position in the government-wide financial statements. The Town utilizes resources which have been restricted prior to utilizing unrestricted resources. Net position is displayed in the following three components:

- Net investment in capital assets— This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, 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 — This component of net position consists of restricted assets reduced by liabilities and deferred inflows of 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—This component of net position is 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 purposes for which amounts in the funds can be spent. The Town does not maintain any minimum fund balance policies. Fund balance can be classified in the following components:

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

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

The Town spends 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.

L. 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.

M. Total Columns

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

Note 3. Stewardship, Compliance and Accountability

A. Property Tax Calendar and Limitations

Real and personal property taxes are based on values assessed as of each January 1 and are due on a quarterly basis during the fiscal year. 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.

The Town maintains a Community Preservation Fund, in accordance with Massachusetts General Laws, which mandates these funds be spent in the following areas: open space, affordable housing and historic resources. Appropriations are made via Town Meeting vote. A 3% surcharge is added to the real estate tax bill, and contributions are potentially available by the state annually.

The Town pays an annual tax as a member of Barnstable County, which is levied annually by the County Commissioners. The County tax is apportioned and assessed upon the towns comprising the County. The apportionment is based upon the equalized valuations of each town as of every July 1. County taxes are normally due on the subsequent November 1 and May 1. The County tax paid for fiscal year 2015 was \$185,944.

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.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

The budgets for all departments and operations of the Town. Education budgets are prepared under the direction of the respective regional school Town school committees. Town assessments must be accepted by Town Meeting. 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.

C. Fund Equities

Operations of the various Town funds for the fiscal year were funded in accordance with the General Laws of Massachusetts. The Town classifies fund equity in the fund financial statements as either nonspendable, restricted, committed, or assigned for specific purposes. The residual is reported as unassigned fund balance. As of June 30, 2015, the classification of the Town's fund balances can be detailed as follows:

	<u>General Fund</u>	<u>Community Preservation Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Inventories	\$ -	\$ -	\$ 156,746	\$ 156,746
Subtotal	-	-	156,746	156,746
Restricted:				
General government			1,622,905	1,622,905
Public safety			113,448	113,448
Education			12,090	12,090
Public works			42,872	42,872
Human services			533,094	533,094
Culture and recreation			1,376,253	1,376,253
Community preservation		4,267,143		4,267,143
Debt service	59,735	68,015	-	127,750
Subtotal	59,735	4,335,158	3,700,662	8,095,555
Committed:				
General government	387,485		34,882	422,367
Public safety	191,876		6,998	198,874
Education				
Public works	687,689		101,493	789,182
Human services	1,999		4,797	6,796
Culture & recreation	913,331		148,757	1,062,088
Other	100,000	-	-	100,000
Subtotal	2,282,380		296,927	2,579,307
Assigned:				
General government	40,806			40,806
Public safety	23,826			23,826
Public Works	42,022			42,022
Human services	751			751
Employee benefits and other				
Culture and recreation	22,150	-	-	22,150
Debt Service	35,690	-	-	35,690
Subtotal	165,245	-	-	165,245
Unassigned	5,638,148	-	(1,000,618)	4,637,530
Total	<u>\$ 8,145,508</u>	<u>\$ 4,335,158</u>	<u>\$ 3,153,717</u>	<u>\$ 15,634,383</u>

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

The Town's stabilization fund is reported with the General fund since it is designed to maintain funds set aside by town meeting votes, and is not funded by a specific revenue source. In accordance with Massachusetts General Law Chapter 40, Section 5B, for the purpose of creating one or more stabilization funds, towns may appropriate in any year an amount not exceeding, in the aggregate, 10% of the amount raised in the preceding fiscal year by taxation of real estate and personal property and the aggregate amount in such funds may not exceed 10% of the equalized valuation. At annual or special town meeting the Town with two-thirds vote may create a stabilization fund, specify or change the purpose of any stabilization fund, and appropriate into or out of any such fund. The Town's stabilization fund maintained a balance of \$1,100,521 at June 30, 2015.

Deficit unassigned fund balance in the amount of \$1,000,618 for the Town's other governmental funds consisted of highway capital projects for which permanent financing will be obtained in subsequent periods.

D. Restricted Net Position

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

Capital Project Funds	\$ 147,989
Special Revenue Funds:	
Community Preservation Fund	4,335,158
Other special revenue funds	4,066,083
Total restricted net position	<u>\$ 8,549,230</u>

Note 4. Cash and Investments

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

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. The Town does not have a formal deposit policy for custodial credit risk. At June 30, 2015 deposits totaled \$23,691,845 and had a carrying amount of \$22,895,936. Of the deposit amounts, \$810,796 was exposed to custodial credit risk at June 30, 2015 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts represents outstanding checks, deposits in transit and other reconciling items.

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have a depository and investment policy covering custodial credit risk.

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 does not have an investment policy regarding interest rate risk. The approximate maturities of the Town's investments are disclosed in the following table:

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Not Applicable</u>	<u>12 months or less</u>	<u>1-2 years</u>
Governmental activities:				
Certificates of deposit	\$ 100,328	\$ -	\$ 50,136	\$ 50,192
Money funds	67,226	67,226		
Equities	310,520	310,520		
Mutual funds-bonds	163,148	163,148		
Other indexed funds	<u>30,982</u>	<u>30,982</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 672,204</u>	<u>\$622,068</u>	<u>\$ 50,136</u>	<u>\$ 50,192</u>
Fiduciary activities:				
Equities	\$ 95,496	\$ 95,496		
Mutual funds-bonds	60,674	60,674		
Other indexed funds	<u>199,585</u>	<u>199,585</u>		
Total fiduciary activities	<u>\$ 355,755</u>	<u>\$ 355,755</u>		

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 following table. Equity securities, money market funds, repurchase agreements and equity mutual funds are not rated as to credit risk. The Town does not have an investment policy limiting its investment choices. The certificates of deposit are covered by depository insurance. The following table discloses the credit risk associated with the Town's investments using Standard & Poor's rating classifications as applicable:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Exempt from Disclosure</u>	<u>AAA</u>	<u>AA to A</u>	<u>Not Applicable or not rated</u>
Governmental activities:					
Certificates of deposit	\$ 100,328	\$ -	\$ -	\$ -	\$ 100,328
Money funds	67,226				67,226
Equities	310,520				310,520
Mutual funds-bonds	163,148				163,148
Other indexed funds	<u>30,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,982</u>
Total governmental activities	<u>\$ 672,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 672,204</u>
Fiduciary activities:					
Equities	\$ 95,496	\$ -	\$ -	\$ -	\$ 95,496
Mutual funds - bonds	60,674				60,674
Other indexed funds	<u>199,585</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,585</u>
Total fiduciary activities	<u>\$ 355,755</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 355,755</u>

Concentration of credit risk – The Town does not have an investment policy limiting the amount that can be invested in any one issuer or security. Excluding U.S. federal agency securities, external investment pools, and certificates of deposit, there were no individual investments that exceeded 5% of the total investments. Certain fiduciary investments are maintained by an independent broker under the control and direction of trustees independent of the town treasurer pursuant to a separate trust arrangement.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Note 5. Receivables

The Town reports the aggregate amount of receivables in the accompanying Statement of Net Position and Balance Sheet.

The Town includes the following receivables for individual major and non-major governmental funds, and fiduciary funds in the aggregate, including applicable allowances for uncollectible amounts and amounts deferred. At June 30, 2015, the receivable balances for the Town's governmental and business-type activities consists of the following:

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>
Governmental Activities			
Real estate, surcharge, personal property taxes	\$ 670,765	\$ -	\$ 670,765
Tax liens, deferrals and foreclosures	2,740,341		2,740,341
Motor vehicle and other excise	120,185	20,747	99,438
Ambulance	1,531,186	536,000	995,186
Betterments, departmental and other	699,403		699,403
Intergovernmental:			
Massachusetts School Building Authority (to be collected in future years)	1,528,703		1,528,703
Massachusetts highway awards	1,312,444		1,312,444
Seaport Grant – Wychmere Harbor	<u>399,361</u>	<u>-</u>	<u>399,361</u>
Totals – Governmental Activities	<u>\$ 9,002,388</u>	<u>\$ 556,747</u>	<u>\$ 8,445,641</u>

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

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>
Business-type Activities			
Water rates, charges, liens	\$1,912,796	\$ 53,200	\$ 1,859,596
Massachusetts Clean Water Trust Unrecorded Drawdowns	<u>129,391</u>	<u>-</u>	<u>129,391</u>
Totals	<u>\$ 2,042,187</u>	<u>\$ 53,200</u>	<u>\$ 1,988,987</u>

Massachusetts highway awards (Chapter 90) are awarded to the Town on an annual basis. The Town submits for reimbursement upon completion of approved project expenditures. The balance of \$1,312,444 in Massachusetts highway awards represent unexpended balances of allotments for projects that have not yet been submitted. The Town has also reported \$399,361 for a Seaport Grant from the Commonwealth of Massachusetts.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows.

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 21,486,033	\$ -	\$ -	\$ 21,486,033
Construction in progress	<u>769,500</u>	<u>1,471,200</u>	<u>-</u>	<u>2,240,700</u>
Sub-total	22,255,533	1,471,200		23,726,733
Capital assets being depreciated:				
Buildings and related improvements	57,163,801	299,850		57,463,651
Improvements other than buildings	4,880,624	168,313		5,048,937
Equipment, machinery & vehicles	11,252,861	695,420		11,948,281
Infrastructure	<u>77,313,941</u>	<u>384,417</u>	<u>-</u>	<u>77,698,358</u>
Sub-total	150,611,227	1,548,000		152,159,227
Less accumulated depreciation:				
Buildings and related improvements	32,035,460	1,850,423		33,885,883
Improvements other than buildings	3,264,351	231,194		3,495,545
Equipment, machinery & vehicles	8,240,153	522,209		8,762,362
Infrastructure	<u>59,824,773</u>	<u>1,916,075</u>	<u>-</u>	<u>61,740,848</u>
Sub-total	<u>103,364,737</u>	<u>4,519,901</u>	<u>-</u>	<u>107,884,638</u>
Governmental capital assets, net	<u>\$ 69,502,023</u>	<u>\$ (1,500,701)</u>	<u>\$ -</u>	<u>\$ 68,001,322</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,505,893	\$ -	\$ -	\$ 1,505,893
Construction in progress	<u>372,239</u>	<u>-</u>	<u>(372,239)</u>	<u>-</u>
Sub-total	1,878,132		(372,239)	1,505,893
Capital assets being depreciated:				
Buildings and related improvements	4,606,543	2,245,350		6,851,893
Equipment, machinery & vehicles	2,497,104			2,497,104
Infrastructure	<u>36,438,695</u>	<u>-</u>	<u>-</u>	<u>36,438,695</u>
Sub-total	43,542,342	2,245,350		45,787,692
Less accumulated depreciation:				
Buildings and related improvements	414,048	139,735		553,783
Equipment, machinery & vehicles	772,447	163,439		935,886
Infrastructure	<u>24,931,406</u>	<u>799,097</u>	<u>-</u>	<u>25,730,503</u>
Sub-total	<u>26,117,901</u>	<u>1,102,271</u>	<u>-</u>	<u>27,220,172</u>
Business-type capital assets, net	<u>\$ 19,302,573</u>	<u>\$ 1,143,079</u>	<u>\$ (372,239)</u>	<u>\$ 20,073,413</u>

In fiscal year 2015, \$372,239 in Construction in progress was added to Buildings and Improvements.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Pursuant to the Monomoy Regional School District's 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 Town 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 to the Town.

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

Governmental activities:	
General government	\$ 132,458
Public safety	602,726
Education	989,762
Public works	2,258,235
Health services	180,423
Culture and recreation	<u>356,297</u>
Total depreciation expense – governmental activities	<u>\$ 4,519,901</u>
Business-type activities:	
Water enterprise	<u>\$ 1,102,271</u>

Note 7. Interfund Balances and Activity

The General Fund was due \$55,439 at June 30, 2015 from other governmental funds for deficit balances. The General Fund was also due \$19,745 from the agency fund for funding police details.

Inter-fund transfers for the fiscal year ended June 30, 2015, consisted of the following:

	<u>General Fund</u>	<u>Community Preservation Fund</u>	<u>OPEB Trust Fund</u>
Amounts transferred from special revenue funds to general fund to fund fiscal year budget and other transfers (Including Allen Harbor Dredging)	\$ 506,383	\$ -	\$ -
Amounts transferred to Community Preservation Act (CPA Fund)	(627,345)	627,345	
Contribution to other post-employment benefit trust Fund	(100,000)		100,000
Amounts transferred from general fund to special revenue funds	(207,357)		
Amounts transferred from Community Preservation Act (CPA fund) to fund related fiscal year debt service	<u>683,875</u>	<u>(683,875)</u>	<u>-</u>
Total net transfers	<u>\$ 255,556</u>	<u>\$ (56,530)</u>	<u>\$ 100,000</u>

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Note 8. Long-term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2015:

<u>Purpose</u>	<u>Balance July 01, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2015</u>	<u>Current Portion</u>
Governmental activities:					
Refunding 2002 issue, Golf clubhouse dtd 10/2012, 2.0-3.0%, due 11/1/2022	\$ 420,000	\$ -	\$ 65,000	\$ 355,000	\$ 65,000
Refunding 2002, issues, Land acquisition, 2.0-3.0% dtd 10/2012, due 11/1/2022	270,000		40,000	230,000	40,000
General obligation bonds, 3.75%, dtd 12/1/2003, advance refunding Refunding 2003, issues, advance, 2.0- 3.0%, dtd 10/2012, due 11/1/2013	2,260,000		245,000	2,015,000	240,000
Golf irrigation system bonds, 4.29%, dtd 3/15/2005, advance refunding Refunding 2003, issues Golf irrigation, advance, 2.0-3.0%, dtd 10/2012, due 11/1/2013	115,000		115,000		
Road betterment bonds, 2.00 to 4.00%, dtd 10/1/2011, due 10/1/2022	500,000		5,000	495,000	120,000
Land acquisition bonds, 3.68%, dtd 6/15/2005, due 6/15/2020	120,000		15,000	105,000	15,000
Golf course bonds, 4.00 to 5.75%, dtd 10/15/2006, due 11/15/2021	535,000		90,000	445,000	90,000
School roof bonds, 4.00 to 5.75%, dtd 10/15/2006, due 11/15/2021	615,000		80,000	535,000	80,000
Remodeling bonds, 4.00 to 5.75%, dtd 10/15/2006, due 11/15/2021	395,000		55,000	340,000	55,000
Police Station bonds, 4.25%, dtd 2/15/2009, due 2/15/2029	80,000		10,000	70,000	10,000
Refunding bonds, 2.00 to 5.00%, dtd 9/16/2009, due 9/15/2020	6,500,000		450,000	6,050,000	450,000
Road maintenance bonds, 2.00 to 5.00%, dtd 9/16/2009, due 9/15/2020	4,855,000		1,285,000	3,570,000	1,280,000
Massachusetts Clean Water Trust, subsidized septic bonds, dtd. 5/5/2005, due 8/1/2023	50,000		10,000	40,000	10,000
Massachusetts Clean Water Trust, subsidized septic bonds, dtd. 10/6/1999, due 8/1/2020	63,250		6,529	56,721	6,529
Allen Harbor dredging, 2.0 to 2.75% dtd 7/15/2013, due 7/15/2022	76,021		10,829	65,192	10,829
Total long-term bonds	<u>2,900,000</u>	<u>-</u>	<u>330,000</u>	<u>2,570,000</u>	<u>330,000</u>
Other post employment benefits	19,754,271		2,812,358	16,941,913	2,802,358
Landfill closure and monitoring liability	15,514,563	3,040,675	1,976,475	16,578,763	
Net pension liability	314,500		18,500	296,000	18,500
Compensated absences, net	23,838,955	201,741	-	24,040,696	
Total governmental activities	<u>1,034,600</u>	<u>28,600</u>	<u>-</u>	<u>1,063,200</u>	<u>-</u>
	<u>\$ 60,456,889</u>	<u>\$ 3,271,016</u>	<u>\$ 4,807,333</u>	<u>\$ 58,920,572</u>	<u>\$ 2,820,858</u>

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

<u>Purpose</u>	<u>Balance July 01, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2015</u>	<u>Current Portion</u>
Business-type activities:					
Water tank construction bonds, 4.29%, dtd 3/15/2005, refunded	\$ 95,000	\$ -	\$ 95,000	\$ -	\$ -
Water treatment facility bonds, 2.00 to 4.00%, dtd 10/1/2011, due 10/1/2036	2,990,000		130,000	2,860,000	130,000
Water tank construction bonds, 2.00 to 4.00%, dtd 10/1/2011, due 10/1/2022	1,240,000		155,000	1,085,000	155,000
Water treatment facility bonds, 3.42%, dtd 3/15/2010, due 3/15/2030	1,200,000		75,000	1,125,000	75,000
Refunding issue of 2005, 4.0-5.0%, dtd 10/16/2012, due 3/15/2034	1,905,000	-	15,000	1,890,000	110,000
Massachusetts Clean Water Trust subsidized bond, dtd 2/11/16 due 1/15/2036	-	<u>1,878,232</u>	-	<u>1,878,232</u>	-
Total bonds payable	7,430,000	1,878,232	470,000	8,838,232	470,000
Capital leases	95,817		46,965	48,852	48,852
Compensated absences, net	<u>67,000</u>	<u>2,000</u>	-	<u>69,000</u>	-
Total business-type activities					
noncurrent liabilities	<u>\$ 7,592,817</u>	<u>\$ 1,880,232</u>	<u>\$ 516,965</u>	<u>\$ 8,956,084</u>	<u>\$ 518,852</u>

Long-term debt

The outstanding Clean Water Trust (the Trust), formerly the Massachusetts Water Pollution Abatement Trust (MWPAT) bond above is 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 Clean Water Trust (and Trust available earnings). These payments, if material, are recorded as revenue and expenses in the accompanying entity-wide financial statements; however, these payments are not included in the budgetary basis supplementary information because it is not part of the local budget. The Town signed an interim loan for \$1,878,232 with the Clean Water Trust during 2015. The loan was permanently bonded on February 11, 2016, and is reflected as a long-term obligation of the water fund for financial reporting purposes.

In October 2012, the Town issued refunding bonds in the aggregate of \$5,485,000 of which, \$3,565,000 and \$1,920,000 related to governmental and business-type activities respectively. As a result of the refunding, proceeds were used to purchase U.S. government securities deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds were repaid pursuant to the refunding agreement in March 2015. The difference between the par value of the old bonds and the reacquisition price is recorded as a deferred amount on the refunding. This amount is reflected as a deferred outflow of resources. See Note 9.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2015, including interest, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,802,358	\$ 545,116	\$ 3,347,474	\$ 470,000	\$ 211,913	\$ 681,913
2017	2,777,358	452,697	3,230,055	545,976	233,228	779,204
2018	1,782,358	377,935	2,160,293	547,628	219,084	766,712
2019	1,762,358	319,474	2,081,832	549,315	201,930	751,245
2020	1,656,950	258,185	1,915,135	551,039	187,594	738,633
2021 – 2025	4,555,531	684,560	5,240,091	2,287,390	707,789	2,995,179
2026 – 2030	1,605,000	157,348	1,762,348	1,981,464	427,615	2,409,079
2031 – 2035	-	-	-	1,531,107	167,423	1,698,530
2036 – 2037	-	-	-	374,313	11,646	385,959
Totals	<u>\$ 16,941,913</u>	<u>\$ 2,795,315</u>	<u>\$ 19,737,228</u>	<u>\$ 8,838,232</u>	<u>\$ 2,368,222</u>	<u>\$ 11,206,456</u>

The Town is subject to a dual level general debt limit—the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's 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, 2015:

<u>Purpose</u>	<u>Year(s)</u> <u>Authorized</u>	<u>Amount</u>
Road improvements	2013	\$ 172,000
Muddy Creek bridge	2014	4,500,000
Greensand water treatment facility	2014	1,960,000
Town piers and bulkheads	2014	1,226,000
Saquatucket Dock Replacement	2015	500,000
Road Maintenance Program	2015	250,000
Muddy Creek Culvert	2015	<u>500,000</u>
		<u>\$ 9,108,000</u>

Lease obligations

A. Operating leases

The Town has entered into a number of operating leases to support governmental activities, some of which are non-cancelable but otherwise are subject to annual appropriation. The annual minimum required lease payment for non-cancelable operating leases are immaterial as of June 30, 2015.

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. Currently, the Town has two capital leases for vehicles utilized at the water department; the aggregate amount which has been capitalized is \$146,633. Future payments, inclusive of interest for fiscal year 2016, total \$50,816.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Note 9. 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, 2015.

	Deferred Outflows of Resources <u>6/30/15</u>
Governmental activities:	
Deferred amount on bond refunding	\$ 41,172
Net difference between projected and actual pension earnings	<u>211,352</u>
	<u>\$ 252,524</u>
Business-type activities:	
Deferred amount on bond refunding	<u>\$ 181,603</u>
	Deferred Inflows of Resources <u>6/30/15</u>
Governmental funds:	
Deferred revenue:	
Property taxes, surcharges and personal property	\$ 535,155
Tax liens	2,740,340
Motor vehicle and other excise	120,185
Ambulance	1,531,186
Betterments, departmental, and other	703,504
Intergovernmental	<u>3,240,508</u>
Total governmental funds	<u>\$ 8,870,878</u>
Governmental activities:	
Deferred revenue - MA highway	\$ 1,711,805
Unamortized bond premiums	<u>311,193</u>
Total governmental activities	<u>\$ 2,022,998</u>
Business-type activities:	
Unamortized bond premiums	<u>\$ 211,029</u>

Note 10. 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 or revenue anticipation notes (TANs, 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).

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

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 fund. Changes in the Town's temporary debt for the year ended June 30, 2015 are as follows:

Type/Purpose	<u>Loan Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:							
BAN - Roads/highway	6/26/2014	6/26/2015	0.50%	\$ 500,000	\$ -	\$ 500,000	\$ -
BAN - Land	6/26/2015	6/26/2016	0.45%		825,000	-	825,000
BAN - Roads	6/26/2015	6/26/2016	0.45%		400,000		400,000
BAN - Town Pier	6/26/2015	6/26/2016	0.45%		478,000		478,000
BAN - Roads	6/26/2015	6/26/2016	0.45%	-	500,000	-	500,000
Total governmental activities				<u>\$ 500,000</u>	<u>\$ 2,203,000</u>	<u>\$ 500,000</u>	<u>\$ 2,203,000</u>
Business-type activities:							
BAN - Water	6/26/2014	6/26/2015	0.50%	\$ 250,000	-	\$ 250,000	\$ -
BAN - Water	6/26/2015	6/26/2016	0.45%	-	\$ 200,000	-	200,000
Total business-type activities				<u>\$ 250,000</u>	<u>\$ 200,000</u>	<u>\$ 250,000</u>	<u>\$ 200,000</u>

Since proceeds from bond anticipation notes are not considered permanent funding sources, the Town has reported a deficit fund balance in the associated capital projects fund. Deficit balances will be funded through long-term borrowing.

On June 26, 2015, the Town issued temporary notes in the amount of \$2,403,000, at an interest rate of .45%, scheduled to mature June 26, 2016. The following amounts and projects comprise the detail of these notes: \$900,000- road maintenance, \$478,000- town pier, \$200,000 Greensands treatment facility and \$825,000 - land acquisition.

Note 11. Employee Benefits

A. Retirement Benefits

Plan Description

The Barnstable County Retirement Association (the 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.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

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, 2014, 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.

Contributions:

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. And group 4 is mainly comprised of 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 \$2,217,735, which was net of the discount of approximately \$42,000.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

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

	2014
Total pension liability	\$1,426,632,712
Less: Plan fiduciary net position	(862,069,292)
Net pension liability	\$ 564,563,420
Plan fiduciary net position as a percentage of the total pension liability	60.43%
Total employer pension expense	\$ 55,332,919
Town's proportionate share of the collective net pension liability	\$ 24,040,696
Town's percentage share of the collective net pension liability	4.258%
Town's covered payroll	\$ 11,169,369
Town's proportionate share of pension expense recognized	\$ 2,356,231

The Town's proportionate share of collective deferred outflows of resources of \$966,861 as a result of the net difference between projected and actual investment earnings of the pension plan investments, was \$41,172. This amount is to be recognized in future pension expense as follows:

Year ended June 30,	
2016	\$ 10,293
2017	10,293
2018	10,293
2019	10,293
	\$ 41,172

Actuarial Assumptions:

Valuation Date:	January 1, 2014
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Payments increase at 4.0%, except for 2010 Early Retirement Incentive, which is at a level payment.
Inflation Rate:	4.0%
Asset Valuation Method:	Sum of actuarial value at beginning of year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of the market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Projected Salary Increases:	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.5% for Group 2, and 4.75% for Group 4.
Cost of Living Adjustments:	3.0% of the first \$15,000 of retirement income.
 Mortality Rates:	
Pre-retirement:	The RP-2000 Employee Mortality Table projected generationally with Scale AA from 2010.
Healthy Retiree:	The RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale AA from 2010.
Disabled Retiree:	The RP-2000 Healthy Annuitant Mortality Table set forward three years for males only projected generationally using Scale AA from 2010.

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic equity	20.0%	6.6%
International developed markets equity	16.0%	7.1%
International emerging markets equity	7.0%	9.4%
Core fixed income	13.0%	2.2%
High-yield fixed income	10.0%	4.7%
Real estate	10.0%	4.4%
Commodities	4.0%	4.4%
Hedge fund, GTAA, Risk parity	10.0%	3.9%
Private equity	10.0%	11.7%
Total	100.0%	

Discount Rate:

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

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

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 District'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, 2014:

	<u>1% Decrease to 6.75%</u>	<u>Current Discount Rate 7.75%</u>	<u>1% Increase to 8.75%</u>
BCRA - Total Plan	\$ 727,809,353	\$ 564,563,420	\$ 426,139,334
Town's proportionate share	\$ 30,992,166	\$ 24,040,696	\$ 18,146,210

B. Compensated Absences

Employees earn vacation and sick leave as they provide services. The cost of vacation and sick leave benefits is recorded as an expenditure of the applicable fund when incurred. Vacation and sick pay accumulates for various groups of employees based upon personnel by-laws and their respective collective bargaining agreements. Accumulated unused sick leave is due to certain employees upon termination of employment and has been recorded as a liability in the accompanying Statement of Net Position for both governmental and business-type activities.

C. Other Post Employment Benefits

Plan Description

The Town administers a single employer defined benefit plan which provides health and prescription drug benefits to substantially all retired employees and their spouses (plan members). Eligibility to retire under the Town's plan is based upon meeting one of the following conditions:

- i. At least 10 years of creditable service are eligible at age 55;
- ii. At least 20 years of creditable serve are eligible at any age.

The Plan does not issue separate financial statements, but an actuarial valuation is performed biennially. The number of Plan participants as of June 30, 2014, the latest valuation date was 507, which includes retirees, beneficiaries, and dependent members of 352 and active members of 155. These benefits are provided for and amended under various provisions of Massachusetts General Law, terms of collective bargaining agreements and Town ordinances. The Town's net obligation for all of its plan's members have been recorded within the governmental activities as of June 30, 2015.

Funding Policy

The contribution rates of retirees are established by collective-bargaining agreements, Massachusetts General Law, and Town ordinances. The required contribution is based on pay as you go financing requirements. Benefits were paid to retirees, beneficiaries and dependents during the fiscal year ended June 30, 2015 and are paid on a pay as you go basis. All benefits are provided through a third-party insurance carrier that administers, assumes, and pays all claims. The Town contributes at least 75% of the insurance premiums with the remainder funded through retiree contributions.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution (ARC)	\$ 2,818,966
Interest on net OPEB obligation	892,087
ARC adjustment	<u>(670,378)</u>
Annual OPEB cost	3,040,675
Contributions made	<u>(1,976,475)</u>
Increase in net OPEB obligation	1,064,200
Net OPEB obligation, beginning of year	<u>15,514,563</u>
Net OPEB obligation, end of year	<u>\$ 16,578,763</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2015	\$ 3,040,675	65.00%	\$ 16,578,763
6/30/2014	\$ 3,040,736	64.05%	\$ 15,514,563
6/30/2013	\$ 2,921,960	62.17%	\$ 14,421,451

Funding Status and Schedule of Funding Progress

The unfunded actuarial liability was determined using the level dollar thirty year open amortization basis.

	(a)	(b)	(b) - (a)	(b) / (a)	(c)	[(b)-(a)]/(c)
<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
6/30/2014	\$ 303,073	\$ 42,724,608	\$ 42,421,535	0.70%	N/A	N/A
6/30/2012	\$ -	\$ 44,084,195	\$ 44,084,195	0.00%	N/A	N/A
6/30/2010	\$ -	\$ 81,139,558	\$ 81,139,558	0.00%	N/A	N/A
6/30/2008	\$ -	\$ 70,177,265	\$ 70,177,265	0.00%	N/A	N/A

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

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

Actuarial Methods and Assumptions

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

The following methods and assumptions were utilized in the June 30, 2014 valuation:

▪ Actuarial Cost Method:	Projected Unit Credit
▪ Amortization Method:	Amortization payments increasing at 4.0%
▪ Amortization Period:	30 years open
▪ Asset Valuation Method:	Market value
▪ Investment Rate of Return:	5.75%; partially funded scenario
▪ Inflation Rate:	4.0%
▪ Dental:	2.0% for 1 year then 5.0% thereafter
▪ Healthcare Trend Rates:	Under 65: 10% decreasing by 2.0% for 1 year and 0.5% for 6 years to an ultimate rate of 5.0% per year Over 65: 10% decreasing by 0.5% for 10 years to an ultimate level of 5.0%

Note 12. 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. Based upon experience, the Town estimates annual monitoring costs are \$18,500 per year, which are included within the annual appropriations. As of June 30, 2015, \$296,000 has been reported on the Town's statement of net position as an estimated remaining liability for post-closure monitoring costs of the landfill. Actual costs may change due to changes in regulations, technology, and inflation.

Note 13. 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 is exposed to various risks of loss related to general liability, property and casualty, unemployment, employee health claims, and workers' compensation.

The Town purchases general liability insurance and insures buildings and property through insurance policies. Losses are insured to the extent the losses exceed the deductibles.

As discussed in Note 1, the Town participates in the Cape Cod Municipal Health Group (the Group), a municipal joint-purchase group consisting of 51 governmental units, formed pursuant to Massachusetts General Law Chapter 32B to provide employee health insurance benefits. Employees and the Town both contribute to the Group. The Town budgets annually for its estimated 75% share of contributions which approximated \$3.3 million for fiscal year 2015. Information related to the Group may be obtained by contacting the Group directly.

TOWN OF HARWICH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2015

Note 14. Commitments and Contingencies

The Town is named as a defendant in several lawsuits at June 30, 2015. In the opinion of the administration, the ultimate resolution of these legal actions will not result in a material loss to the Town.

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 15. Restated Beginning Balances

The following beginning balances have been restated to correspond with the current year presentation.

	<u>Governmental</u>
	<u>Activities</u>
Net position balance, June 30, 2014	\$ 51,933,575
Implementation of GASB 68:	
Town's share of net pension liability	<u>(23,838,955)</u>
Net position balance restated, July 1, 2014	<u>\$ 28,094,620</u>
	<u>Other</u>
	<u>Governmental</u>
	<u>Funds</u>
Fund Balance, June 30, 2014	\$ 3,701,836
Reclassification of Allen Harbor Dredging Fund reported as a major fund in the prior year	<u>174,099</u>
Fund Balance restated, July 1, 2014	<u>\$ 3,875,935</u>

Note 16. Implementation of GASB Pronouncements

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which are the Town required to be evaluated for implementation.

Current pronouncements

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

Current pronouncements

The GASB issued Statement #68, Accounting and Financial Reporting for Pension, which was required to be implemented in fiscal year 2015. The pronouncement required governments providing defined benefit pensions to recognize their long term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual cost of pension benefits. It also enhanced accountability and transparency through revised and additional note disclosures and required supplementary information. The Town implemented the pronouncement.

TOWN OF HARWICH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2015

The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which was implemented in fiscal year 2015. This pronouncement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The pronouncement had no impact on the Town's financial statements.

The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which was implemented in fiscal year 2015. This pronouncement requires consistent reporting by those governments that extend nonexchange financial guarantees. The pronouncement had no impact on the Town's financial statements.

The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- An Amendment of GASB Statement No. 68*, which was implemented in fiscal year 2015. The pronouncement addresses application of the transition provisions of Statement No. 68, associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The pronouncement had no impact on the Town's financial statements.

Future pronouncements

The GASB issued Statement #72, *Fair Value Measurement and Application*, which is required to be implemented in fiscal year 2016. The pronouncement addresses accounting and financial reporting issues related to fair value measurements. The Town will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2016. The pronouncement objective is to improve the usefulness of information about other postemployment benefits (OPEB) included in the general purpose external financial reports. The Town will evaluate the implementation of the pronouncement as applicable.

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

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HARWICH, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Contributions – Pension Plan
 June 30, 2015

Schedule of Contributions – Pension Plans

1. Barnstable County Retirement Association

The Barnstable County Retirement Association (the Association) is a multiple-employer, cost-sharing, 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:

	2014
Total pension liability	\$ 1,426,632,712
Less: Plan fiduciary net position	(862,069,290)
Net pension liability	\$ 564,563,420
Plan fiduciary net position as a percentage of total pension liability:	60.43%
Town's proportionate/allocated share of the collective net pension liability:	\$ 24,040,696
Town's proportionate share of pension expense:	\$ 2,356,231
Town's proportionate share of collective net pension liability as a percentage of the total:	4.258%
Actuarially determined contributions:	\$ 2,217,735
Contributions in relation to the actuarial determined contribution:	2,217,735
Contribution deficiency (excess):	\$ -
Town's covered payroll:	\$ 11,169,369
Town's contributions as a percentage of covered payroll:	19.86%
Town's proportionate share of the collective net pension liability as a percentage of covered payroll:	215.2%

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 Independent Auditor's Report.

TOWN OF HARWICH, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Funding Progress for the Town's Other Post-Employment Benefits Plan (OPEB)
 June 30, 2015

Schedule of Funding Progress

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

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(b) / (a) Funded Ratio	(c) Covered Payroll	[(b)-(a)]/(c) UAAL as a Percentage of Covered Payroll
6/30/2014	\$ 303,073	\$ 42,724,608	\$ 42,421,535	0.70%	N/A	N/A
6/30/2012	\$ -	\$ 44,084,195	\$ 44,084,195	0.00%	N/A	N/A
6/30/2010	\$ -	\$ 81,139,558	\$ 81,139,558	0.00%	N/A	N/A
6/30/2008	\$ -	\$ 70,177,265	\$ 70,177,265	0.00%	N/A	N/A

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

Actuarial Methods and Assumptions

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

The following methods and assumptions were utilized in the June 30, 2014 valuation:

- Actuarial Cost Method: Projected Unit Credit
- Amortization Method: Amortization payments increasing at 4.0%
- Amortization Period: 30 years open
- Asset Valuation Method: Market value
- Investment Rate of Return: 5.75%, partially funded scenario
- Inflation Rate: 4.0%
- Dental: 2.0% for 1 year then 5.0% thereafter
- Healthcare Trend Rates: Under 65: 10% decreasing by 2.0% for 1 year and 0.5% for 6 years to an ultimate rate of 5.0% per year
Over 65: 10% decreasing by 0.5% for 10 years to an ultimate rate of 5.0% per year

TOWN OF HARWICH, MASSACHUSETTS
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2015

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes and payment in lieu	\$ 41,703,075	\$ 41,703,075	\$ 42,122,246	\$ 419,171
Excise taxes	2,574,000	2,574,000	2,895,425	321,425
Recreational fees	2,495,000	2,495,000	2,080,348	(414,652)
Sanitation fees	1,600,000	1,600,000	2,156,538	556,538
Charges for service	1,000,000	1,000,000	1,489,762	489,762
Licenses, permits, fines and other departmental	791,443	791,443	2,058,161	1,266,718
Penalties and interest	350,000	350,000	306,503	(43,497)
Investment interest	18,000	18,000	24,246	6,246
Intergovernmental	1,619,851	1,619,851	1,544,075	(75,776)
Total revenues	<u>52,151,369</u>	<u>52,151,369</u>	<u>54,677,304</u>	<u>2,525,935</u>
Expenditures				
General government	3,250,876	2,816,630	2,553,852	262,778
Public safety	8,598,366	8,651,046	8,383,636	267,410
Education	21,318,531	21,318,531	21,318,513	18
Public works	5,015,331	5,518,708	5,490,575	28,133
Human services	1,211,962	1,229,685	1,192,866	36,819
Culture and recreation	4,156,212	3,222,752	3,072,623	150,129
Employee benefits and other insurances	7,034,684	6,891,131	6,554,142	336,989
State and county assessments	403,586	642,174	642,174	
Debt service	3,610,560	3,574,870	3,474,871	99,999
Total expenditures	<u>54,600,108</u>	<u>53,865,527</u>	<u>52,683,252</u>	<u>1,182,275</u>
Revenues over (under) expenditures	(2,448,739)	(1,714,158)	1,994,052	3,708,210
Other financing sources (uses)				
Transfers in from other funds	1,473,778	1,687,223	1,660,043	(27,180)
Transfers out to other funds	(100,000)	(100,000)	(964,702)	(864,702)
Total other financing sources (uses)	<u>1,373,778</u>	<u>1,587,223</u>	<u>695,341</u>	<u>(891,882)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(1,074,961)	(126,935)	<u>\$ 2,689,393</u>	<u>\$ 2,816,328</u>
Other budget items				
Free cash appropriations	81,896	676,896		
Overlay surplus	100,000	100,000		
Carryover articles and encumbrances	893,065	(649,961)		
Total other budget items	<u>1,074,961</u>	<u>126,935</u>		
Net budget	<u>\$</u>	<u>\$</u>		

See Independent Auditor's Report.

TOWN OF HARWICH, MASSACHUSETTS
 Budgetary Comparison Schedule - Community Preservation Fund
 For the Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Property taxes, penalties and interest	\$ 1,245,340	\$ 1,245,340	\$ 1,248,305	\$ 2,965
Investment interest			4,415	4,415
Intergovernmental	408,607	408,607	615,111	206,504
Total revenues	<u>1,653,947</u>	<u>1,653,947</u>	1,867,831	213,884
Expenditures				
Total expenditures	<u>1,920,526</u>	<u>1,637,223</u>	455,975	1,181,248
Revenues over (under) expenditures	(266,579)	16,724	1,411,856	1,395,132
Other financing sources (uses)				
Transfers out to other funds	<u>(950,806)</u>	<u>(950,806)</u>	<u>(56,530)</u>	894,276
Total other financing sources (uses)	<u>(950,806)</u>	<u>(950,806)</u>	<u>(56,530)</u>	894,276
Revenues and other financing sources over (under) expenditures and other financing uses	(1,217,385)	(934,082)	<u>\$ 1,355,326</u>	<u>\$ 2,289,408</u>
Other budget items				
Available fund balance	<u>1,217,385</u>	<u>934,082</u>		
Total other budget items	<u>1,217,385</u>	<u>934,082</u>		
Net budget	<u>\$</u>	<u>\$</u>		

See Independent Auditor's Report.

TOWN OF HARWICH, MASSACHUSETTS
Notes to Required Supplementary Information
June 30, 2015

Note 1. 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 are for all departments and operations of the Town. The regional school districts' school committee is responsible for their respective budgets, which must be voted upon by member towns at town meeting. Original and supplemental appropriations are acted upon by vote of Town Meeting. General Fund and Community Preservation Fund functions are budgeted; the town does not have legally adopted annual budgets for its other 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. Business-type activities are not required to present budgetary information.

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 major differences between the budget and GAAP basis is all budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). There is no difference between the GAAP and budgetary basis for the Town's Community Preservation fund. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2015, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses), Net</u>
As reported on a budgetary basis	\$ 54,677,304	\$ 52,683,252	\$ 695,341
Indirect charges for water fund		(469,785)	(469,785)
Stabilization funds interest income	1,277		
Transfer from special stabilization fund - to OPEB trust fund			
Timing of other expenditures and transfers		30,000	30,000
Transfer to stabilization fund			
Adjustment of property tax revenues to modified accrual basis and provision for refund of paid taxes	(37,390)		
State funded teacher's pension	-	-	-
As reported on a GAAP basis	<u>\$ 54,641,191</u>	<u>\$ 52,243,467</u>	<u>\$ 255,556</u>

See Independent Auditor's Report.

REPORT ON INTERNAL CONTROL



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

To the Honorable Board of Selectmen
Town of Harwich, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Town of Harwich, Massachusetts, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Town of Harwich, Massachusetts' basic financial statements and have issued our report thereon dated June 6, 2016.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2015-1 and 2015-2 to be material weaknesses.

Compliance and Other Matters

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

Town of Harwich, Massachusetts' Responses to Findings

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

Purpose of this Report

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



Norwell, Massachusetts
June 6, 2016

TOWN OF HARWICH, MASSACHUSETTS
SCHEDULE OF FINDINGS AND RESPONSES

Introduction

The following findings highlight certain deficiencies, which taken in the aggregate are considered to be material weaknesses in internal control over financial reporting, in regard to year ended June 30, 2015.

2015-1 Enhance the cash reconciliation process

Finding and recommendation: During our audit, we noted that variances between the treasury and accounting ledger approximate \$40,000. Furthermore, reconciliations did not appear to have a secondary review and were not prepared in a timely manner. It is important to reconcile variances between reported cash amounts and investigate reasons for the variances.

Management's response: The Town intends to implement the MUNIS treasury module, and expects to isolate unidentified variances and determine proper disposition related thereto.

2015-2 Improve the reporting within the general ledger, including maintenance of financial activity (including receivables, liabilities, bonds and articles)

Finding and recommendation: During our audit, we noted certain financial activity was not reported in the general ledger or reported in an incorrect fund. Chapter 90 Receivables and Massachusetts School Building Authority Receivables were not reported at year end. These two receivables, totaling almost \$3 million, are monies to be received by the Town and are related to the reimbursement of capital projects. We recommend that a secondary review of all receivables, as well as an analysis, be performed on a monthly basis to ensure that all monies owed to the Town are booked accordingly. Also, in 2015, a loan from the Massachusetts Clean Water Trust was booked as revenue. Upon confirmation with the Clean Water Trust, it was determined that this was a loan payable. We recommend that the Town evaluate all sources of financing for potential liabilities. In addition, certain Community Preservation Fund activity was recorded in the general fund.

Management's response: The new Town Accountant will address these issues going forward.