

***TOWN OF CHILMARK, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***YEAR ENDED JUNE 30, 2016***

TOWN OF CHILMARK, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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## Independent Auditor's Report

To the Board of Selectmen  
Town of Chilmark, Massachusetts

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town Chilmark, Massachusetts, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Chilmark, Massachusetts' 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 risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Chilmark, Massachusetts, as of June 30, 2016, and the respective changes in financial position 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 and required supplementary information, as listed in the table of contents, 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 November 21, 2016, on our consideration of the Town of Chilmark's 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 the Town of Chilmark's internal control over financial reporting and compliance.



November 21, 2016

***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the Town of Chilmark, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2016. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

### **Financial Highlights**

- The Town's assets and deferred outflows of resources exceeded its liabilities by \$17.3 million (net position) at year end.
- As required by GASB Statement #68, in 2016 the Town recognized their total net pension liability of \$2.1 million along with a deferred outflow related to pensions of \$191,000.
- The Town's OPEB obligation at year end totaled \$1.7 million. Approximately \$907,000 has been set aside in and OPEB trust to meet this obligation. In 2016 the Town contributed \$150,000 to this fund.
- The Town's long-term debt totaled \$3.625 million at year end.

### ***Overview of the Financial Statements***

This discussion and analysis are intended to serve as an introduction to the Town of Chilmark's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *statement of net position* presents information on all assets, liabilities and deferred inflow/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent 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 periods (e.g., uncollected taxes and accrued interest).

The governmental activities include general government, public safety, education, public works, community preservation, human services, culture and recreation, interest and state and county charges.

**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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental 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 statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the 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 of Chilmark adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

**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 own programs. Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

**Notes to the basic 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.

### ***Government-wide Financial Analysis***

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town of Chilmark's assets exceeded liabilities by \$17.3 million at the close of 2016.

Net position of \$16.4 million reflects its investment in capital assets (e.g., land, buildings, vehicles); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its 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 governmental net position, \$496,000, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position totaled \$438,000, an increase of \$618,000 from the prior year. This was due to better than anticipated budgetary results and principal payments on debt exceeding depreciation expense; offset by increases in both the net pension liability and OPEB.

At the end of the current year, the Town of Chilmark is able to report positive balances in all categories of net position. Key components of net position are shown on the following schedule.

	<u>2016</u>	<u>2015</u>
<b>Assets:</b>		
Current assets.....	\$ 5,286,587	\$ 5,174,888
Capital assets.....	<u>19,749,449</u>	<u>20,258,241</u>
<b>Total assets.....</b>	<b>25,036,036</b>	<b>25,433,129</b>
<b>Deferred Outflows of Resources:</b>		
Deferred outflows of resources related to pensions.....	190,968	-
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	260,259	889,183
Noncurrent liabilities (excluding debt).....	3,997,892	3,550,292
Current debt.....	620,000	620,000
Noncurrent debt.....	<u>3,005,000</u>	<u>3,630,000</u>
<b>Total liabilities.....</b>	<b>7,883,151</b>	<b>8,689,475</b>
<b>Deferred Inflows of Resources:</b>		
Deferred inflows of resources related to pensions.....	-	17,792
<b>Net Position:</b>		
Net investment in capital assets.....	16,409,855	16,286,794
Restricted.....	496,037	665,792
Unrestricted.....	<u>437,961</u>	<u>(226,724)</u>
<b>Total net position.....</b>	<b>\$ <u>17,343,853</u></b>	<b>\$ <u>16,725,862</u></b>
<b>Program Revenues:</b>		
Charges for services.....	\$ 1,711,909	\$ 1,530,039
Operating grants and contributions.....	860,052	236,083
Capital grants and contributions.....	142,047	150,095
<b>General Revenues:</b>		
Real estate and personal property taxes.....	8,548,482	8,151,815
Tax liens.....	-	20,784
Motor vehicle and other excise taxes.....	182,127	213,609
Community preservation tax surcharges.....	239,316	224,768
Unrestricted investment income.....	25,296	14,643
Other revenues.....	<u>81,705</u>	<u>75,621</u>
<b>Total revenues.....</b>	<b>11,790,934</b>	<b>10,617,457</b>
<b>Expenses:</b>		
General Government.....	2,218,665	2,034,945
Public Safety.....	3,248,198	2,805,542
Education.....	3,118,228	3,393,785
Public Works.....	1,202,316	648,953
Community Preservation.....	126,013	260,284
Human Services.....	254,572	210,172
Culture and Recreation.....	908,005	807,342
Interest.....	<u>96,946</u>	<u>70,732</u>
<b>Total expenses.....</b>	<b>11,172,943</b>	<b>10,231,755</b>
<b>Change in net position.....</b>	<b>617,991</b>	<b>385,702</b>
<b>Net position at the beginning of the year.....</b>	<b><u>16,725,862</u></b>	<b><u>16,340,160</u></b>
<b>Net position at the end of the year.....</b>	<b>\$ <u>17,343,853</u></b>	<b>\$ <u>16,725,862</u></b>

The governmental expenses totaled \$11.2 million of which \$2.7 million (24%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$9.1 million, primarily coming from property taxes, motor vehicle excise taxes and community preservation tax surcharges.

The governmental activities net position increased by \$618,000 during the current year. This was due to better than anticipated budgetary results and principal payments on debt exceeding depreciation expense; offset by increases in both the net pension liability and OPEB.

### ***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.

**Governmental funds.** The focus of the Town of Chilmark's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Chilmark's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$4.9 million of which \$2.2 million is for the general fund, \$596,000 is for the community preservation fund, \$639,000 is for the community preservation capital projects fund and \$1.4 million is for nonmajor governmental funds. Cumulatively there was an increase of \$715,000 in fund balances from the prior year.

Reported within the general fund are the general fund and the stabilization funds. At the end of the current year, unassigned fund balances of the general fund and the stabilization fund were \$787,000 and \$792,000, respectively. Unassigned fund balance represents 16.87% of the total general fund expenditures, while total fund balance represents 24.0% of that same amount. Fund balance committed for articles and continuing appropriations totaled \$657,000 while fund balance was assigned for encumbrances in the amount of \$9,200. The balance in the stabilization fund fluctuates based on capital and operational needs.

The Town's general fund increased \$372,000 in 2016. This was due to better than expected budgetary results.

The community preservation fund is used to account for the Town's resources collected for the acquisition, creation, preservation and support of open space, historic resources, and community housing. During the year the fund collected \$380,000 in revenue and transferred \$145,000 into the community preservation capital project fund and \$11,400 into the general fund. It had fund balance of \$596,000 at year end.

The community preservation capital project fund is used to account for expenditures on CPA projects. The fund received a transfer of CPA money totaling \$145,000. Expenditures were primarily related to costs associated with the MV Regional High School track maintenance, Kuehn's Way, and the Chilmark Rental Assistance Program. The fund had a balance of \$639,000 at year end.

The paving project fund is used to account for the Town's resources related to various paving projects. The Town transferred in \$100,000 into the fund in 2016.

### ***General Fund Budgetary Highlights***

There was a \$536,000 change between the original budget and the final budget. Most of this was related to using free cash to fund various articles.

### ***Capital Asset and Debt Administration***

**Capital Assets.** In conjunction with the annual operating budget, the Town annually prepares a capital budget for the upcoming year.

The Town's investment in capital assets as of June 30, 2016, amounted to \$19.7 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles, equipment and infrastructure.

**Debt Administration.** At the end of the current year, the Town had total bonded long-term debt outstanding of \$3.625 million. The entire amount is classified as governmental debt and is backed by the full faith and credit of the government. The Town's bond rating is AAA by Standard & Poor's.

Please refer to Notes 4, 7, and 8 of the financial statements for further discussion of the major capital and debt activity.

### ***Pension and Other Postemployment Benefits***

At June 30, 2016, the Town had a liability of \$2.1 million and \$1.7 million for its Pension and Other Postemployment Benefits (OPEB), respectively. These unfunded liabilities represent the future amounts that the Town would have to accumulate in order fully fund its obligation to provide benefits to its current and future retirees. The pension obligation is being funded based on an actuarial study which calculates the Annual Required Contribution (ARC) the Town must make to the retirement system each year, which the Town pays to the Dukes County Retirement System. The OPEB obligation also uses actuarial valuation to determine the ARC. To date, the Town is not fully funding its OPEB obligation and the difference between the ARC and the amount paid is reported as a liability on the statement of net position. Please see Notes 11 and 12 and the Required Supplementary Schedules for additional information.

### ***Requests for Information***

This financial report is designed to provide a general overview of the Town of Chilmark'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 Accountant, P.O. Box 119, Chilmark, MA 02525.

# ***Basic Financial Statements***

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**STATEMENT OF NET POSITION**

JUNE 30, 2016

	<b>Primary Government</b>
	Governmental Activities
<b>ASSETS</b>	
CURRENT:	
Cash and cash equivalents.....	\$ 3,969,013
Investments.....	634,001
Receivables, net of allowance for uncollectibles:	
Real estate and personal property taxes.....	131,913
Tax liens.....	60,628
Motor vehicle and other excise taxes.....	27,052
Intergovernmental.....	463,980
NONCURRENT:	
Capital assets, nondepreciable.....	8,686,522
Capital assets, net of accumulated depreciation.....	11,062,927
TOTAL ASSETS.....	25,036,036
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions.....	190,968
<b>LIABILITIES</b>	
CURRENT:	
Warrants payable.....	90,337
Accrued payroll.....	60,796
Accrued interest.....	39,878
Other liabilities.....	48,648
Compensated absences.....	20,600
Bonds payable.....	620,000
NONCURRENT:	
Compensated absences.....	185,819
Other postemployment benefits.....	1,738,243
Net pension liability.....	2,073,830
Bonds payable.....	3,005,000
TOTAL LIABILITIES.....	7,883,151
<b>NET POSITION</b>	
Net investment in capital assets.....	16,409,855
Restricted for:	
Permanent funds:	
Expendable.....	16,855
Nonexpendable.....	54,684
Other purposes.....	424,498
Unrestricted.....	437,961
TOTAL NET POSITION.....	\$ 17,343,853

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>				Net (Expense) Revenue
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 2,218,665	\$ 148,895	\$ 98,868	\$ -	\$ (1,970,902)
Public safety.....	3,248,198	1,290,773	23,055	3,500	(1,930,870)
Education.....	3,118,228	-	245,100	-	(2,873,128)
Public works.....	1,202,316	49,291	460,419	-	(692,606)
Community preservation.....	126,013	-	-	138,547	12,534
Human services.....	254,572	13,565	8,720	-	(232,287)
Culture and recreation.....	908,005	209,385	5,940	-	(692,680)
Interest.....	96,946	-	17,950	-	(78,996)
 Total Governmental Activities....	 <u>\$ 11,172,943</u>	 <u>\$ 1,711,909</u>	 <u>\$ 860,052</u>	 <u>\$ 142,047</u>	 <u>\$ (8,458,935)</u>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

YEAR ENDED JUNE 30, 2016

	<b>Primary Government</b>
	Governmental Activities
<b>Changes in net position:</b>	
Net (expense) revenue from previous page.....	\$ <b>(8,458,935)</b>
<i>General revenues:</i>	
Real estate and personal property taxes, net of tax refunds payable.....	8,548,482
Motor vehicle and other excise taxes.....	182,127
Community preservation tax surcharges.....	239,316
Hotel/motel tax.....	56,740
Penalties and interest on taxes.....	24,965
Unrestricted investment income.....	25,296
Total general revenues.....	9,076,926
Change in net position.....	617,991
<i>Net Position:</i>	
Beginning of year.....	16,725,862
End of year.....	\$ 17,343,853
See notes to basic financial statements.	(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2016

	General	Community Preservation	Community Preservation Capital Projects	Paving Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents.....	\$ 1,267,440	\$ 595,559	\$ 639,162	\$ 10,539	\$ 1,456,313	\$ 3,969,013
Investments.....	634,001	-	-	-	-	634,001
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	131,913	-	-	-	-	131,913
Tax liens.....	59,236	1,392	-	-	-	60,628
Motor vehicle and other excise taxes.....	27,052	-	-	-	-	27,052
Intergovernmental.....	-	3,561	-	460,419	-	463,980
Due from other funds.....	447,073	-	-	-	-	447,073
<b>TOTAL.....</b>	<b>\$ 2,566,715</b>	<b>\$ 600,512</b>	<b>\$ 639,162</b>	<b>\$ 470,958</b>	<b>\$ 1,456,313</b>	<b>\$ 5,733,660</b>
<b>LIABILITIES</b>						
Warrants payable.....	\$ 71,270	\$ -	\$ -	\$ 13,346	\$ 5,721	\$ 90,337
Accrued payroll.....	47,737	-	-	-	13,059	60,796
Other liabilities.....	48,648	-	-	-	-	48,648
Due to other funds.....	-	-	-	447,073	-	447,073
<b>TOTAL.....</b>	<b>167,655</b>	<b>-</b>	<b>-</b>	<b>460,419</b>	<b>18,780</b>	<b>646,854</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenues.....	154,252	4,953	-	-	-	159,205
<b>FUND BALANCES</b>						
Nonspendable.....	-	-	-	-	54,684	54,684
Restricted.....	-	595,559	639,162	10,539	1,382,849	2,628,109
Committed.....	657,032	-	-	-	-	657,032
Assigned.....	9,240	-	-	-	-	9,240
Unassigned.....	1,578,536	-	-	-	-	1,578,536
<b>TOTAL FUND BALANCES.....</b>	<b>2,244,808</b>	<b>595,559</b>	<b>639,162</b>	<b>10,539</b>	<b>1,437,533</b>	<b>4,927,601</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 2,566,715</b>	<b>\$ 600,512</b>	<b>\$ 639,162</b>	<b>\$ 470,958</b>	<b>\$ 1,456,313</b>	<b>\$ 5,733,660</b>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2016

Total governmental fund balances.....	\$	4,927,601
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		19,749,449
Accounts receivable are not available to pay for current-period expenditures and, therefore, are reported as a deferred inflow of resources in the funds.....		159,205
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or deferred inflows of resources related to pensions.....		190,968
In the statement of activities, interest is accrued on outstanding long-term debt, where as in governmental funds interest is not reported until due.....		(39,878)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Compensated absences.....	(206,419)	
Other postemployment benefits.....	(1,738,243)	
Net pension liability.....	(2,073,830)	
Bonds payable.....	<u>(3,625,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(7,643,492)</u>
Net position of governmental activities.....	\$	<u><u>17,343,853</u></u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2016

	General	Community Preservation	Community Preservation Capital Projects	Paving Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Real estate and personal property taxes, net of tax refunds.....	\$ 8,492,497	\$ -	\$ -	\$ -	\$ -	\$ 8,492,497
Motor vehicle and other excise taxes.....	213,012	-	-	-	-	213,012
Hotel/motel tax.....	56,740	-	-	-	-	56,740
Charges for services.....	53,271	-	-	-	-	53,271
Penalties and interest on taxes.....	24,965	-	-	-	-	24,965
Fees and rentals.....	508,686	-	-	-	3,994	512,680
Licenses and permits.....	118,563	-	-	-	-	118,563
Fines and forfeitures.....	8,025	-	-	-	-	8,025
Intergovernmental - federal and state.....	4,935	138,547	-	460,419	711,585	1,315,486
Lease income.....	263,050	-	-	-	-	263,050
Departmental and other.....	72,815	-	-	-	312,277	385,092
Community preservation tax surcharges.....	-	237,520	-	-	-	237,520
Contributions.....	-	-	-	-	57,841	57,841
Investment income.....	10,457	3,916	-	-	10,923	25,296
<b>TOTAL REVENUES.....</b>	<b>9,827,016</b>	<b>379,983</b>	<b>-</b>	<b>460,419</b>	<b>1,096,620</b>	<b>11,764,038</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	1,236,260	-	-	-	44,503	1,280,763
Public safety.....	1,507,083	-	-	-	848,750	2,355,833
Education.....	3,026,319	-	-	-	-	3,026,319
Public works.....	402,049	-	-	657,992	4,167	1,064,208
Community preservation.....	-	-	126,013	-	-	126,013
Human services.....	218,305	-	-	-	4,500	222,805
Culture and recreation.....	571,715	-	-	-	15,820	587,535
Pension benefits.....	327,377	-	-	-	-	327,377
Property and liability insurance.....	163,328	-	-	-	-	163,328
Employee benefits.....	746,364	-	-	-	-	746,364
State and county charges.....	425,620	-	-	-	-	425,620
Debt service:						
Principal.....	620,000	-	-	-	-	620,000
Interest.....	110,044	-	-	-	-	110,044
<b>TOTAL EXPENDITURES.....</b>	<b>9,354,464</b>	<b>-</b>	<b>126,013</b>	<b>657,992</b>	<b>917,740</b>	<b>11,056,209</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>472,552</b>	<b>379,983</b>	<b>(126,013)</b>	<b>(197,573)</b>	<b>178,880</b>	<b>707,829</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in.....	17,439	-	144,890	110,539	7,095	279,963
Transfers out.....	(117,634)	(156,329)	-	-	(6,000)	(279,963)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(100,195)</b>	<b>(156,329)</b>	<b>144,890</b>	<b>110,539</b>	<b>1,095</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>372,357</b>	<b>223,654</b>	<b>18,877</b>	<b>(87,034)</b>	<b>179,975</b>	<b>707,829</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>1,872,451</b>	<b>371,905</b>	<b>620,285</b>	<b>97,573</b>	<b>1,257,558</b>	<b>4,219,772</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 2,244,808</b>	<b>\$ 595,559</b>	<b>\$ 639,162</b>	<b>\$ 10,539</b>	<b>\$ 1,437,533</b>	<b>\$ 4,927,601</b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds.....	\$	707,829
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Depreciation expense.....		(508,792)
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		26,896
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Debt service principal payments.....		620,000
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(17,742)	
Net change in other postemployment benefits.....	(255,313)	
Net change in accrued interest on long-term debt.....	8,098	
Net change in deferred outflow/(inflow) of resources related to pensions.....	208,760	
Net change in pension liability.....	<u>(171,745)</u>	
Net effect of recording long-term liabilities.....		<u>(227,942)</u>
Change in net position of governmental activities.....	\$	<u><u>617,991</u></u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Other Postemployment Benefit Trust Fund	Agency Funds
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$ 907,271	\$ 14,016
	907,271	14,016
<b>LIABILITIES</b>		
Liabilities due depositors.....	-	14,016
	-	14,016
<b>NET POSITION</b>		
Held in trust for other postemployment benefits and other purposes.....	\$ 907,271	\$ -
	907,271	-

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2016

	Other Postemployment Benefit Trust Fund
<u>ADDITIONS:</u>	
Contributions:	
Employer.....	\$ 150,000
Net investment income:	
Net change in fair value of investments.....	29,589
Interest.....	16,997
Total investment income.....	46,586
Less: investment expense.....	(5,315)
Net investment income.....	41,271
CHANGE IN NET ASSETS.....	191,271
NET POSITION AT BEGINNING OF YEAR.....	716,000
NET POSITION AT END OF YEAR.....	\$ 907,271

See notes to basic financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Chilmark, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**A. Reporting Entity**

The Town is a municipal corporation that is governed by an elected three member Board of Selectmen and an appointed Executive Secretary.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. There are no component units that meet the requirements for inclusion in the Town's basic financial statements.

**Joint Ventures**

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in four joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The following table identifies the Town's joint venture and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal 2016 Assessment</u>
Martha's Vineyard Regional High School District	To provide educational services	RR2, Box 261 Vineyard Haven, MA 02568	\$ 638,360
Up-Island Regional School District	To provide educational services	RR2, Box 261 Vineyard Haven, MA 02568	\$ 2,387,959
Martha's Vineyard Refuse Disposal and Resource Recovery District	To control solid waste disposal	PO Box 2067 Edgartown, MA 02539	\$ 86,347
Tri-Town Ambulance	To provide ambulance service	P.O. Box 340 Chilmark, MA 02535	\$ 265,062

The Martha's Vineyard Regional High School District is governed by a nine-member school committee consisting of one elected representative from the Town, and the Up-Island Regional School District is governed by a five-member school committee, also consisting of one elected representative from the Town. The Town is indirectly liable for the Districts' debt and other expenditures and is assessed annually for its share of operating and capital costs.

The Town is a member of the Martha's Vineyard Refuse Disposal and Resource Recovery District (District), which was established under Chapter 40, Sections 44A through 44K of the Massachusetts General Laws, for the purpose of controlling solid waste disposal on Martha's Vineyard. All six Town's on Martha's Vineyard were members of the District pursuant to the District agreement entered into on January 5, 1983. On May 1, 1994, the Towns of Oak Bluffs and Tisbury formally withdrew from the District. The District is governed by an eight member District Committee. Members of the District Committee are appointed by the Board of Health of each member Town.

Tri-Town Ambulance is an agreement in which the Town equally shares the costs of providing ambulance service with two other towns.

Separate financial statements may be obtained from the school districts and the disposal and resource recovery district by writing to the Treasurer of the Districts at the addresses identified on the previous page. The Tri-Town Ambulance is reported as a special revenue fund in the financial statements of the Town of Chilmark.

## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities are primarily supported by taxes and intergovernmental revenues.

### *Fund Financial Statements*

Separate financial statements are provided for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

### *Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets and deferred outflows of resources, liabilities and deferred inflows or resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

#### *Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues. For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

#### *Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of 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 personal property tax revenues are considered available if they are collected within 60 days after 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.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *community preservation fund* is a special revenue fund used to account for the accumulation of resources for the acquisition, creation, preservation and support of open space, historic resources, and community housing.

The *community preservation capital projects fund* is a capital project fund used to account for the Town's resources for the acquisition, creation, preservation and support of open space, historic resources, and community housing which are capital in nature.

The *paving projects fund* is a capital project fund used to account for the Town's resources related to various paving projects.

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

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund type is reported:

The *other postemployment benefit (OPEB) trust fund* is used to accumulate resources to provide funding for future OPEB liabilities.

The *agency fund* is used to account for assets held in a purely custodial capacity.

#### *Government-Wide and Fund Financial Statements*

For the government-wide financial statements and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

### E. Fair Value Measurements

The Town reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – Fair Value Measurements.

### F. Accounts Receivable

#### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

#### ***Real Estate, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on November 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are processed six to nine months after the close of the valuation year on delinquent properties and are recorded as receivables in the year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

### ***Motor Vehicle Excise Taxes***

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

### ***Intergovernmental – Federal and State***

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

### **G. Inventories**

#### ***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

### **H. Capital Assets**

#### ***Government-Wide Financial Statements***

Capital assets, which include land, buildings, vehicles, equipment, construction in progress and infrastructure, are reported in the applicable governmental activity column of the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

General infrastructure assets acquired or constructed prior to July 1, 2003 are not reported in the financial statements.

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

Capital Asset Type	Estimated Useful Life (in years)
Buildings.....	40
Vehicles.....	5
Equipment.....	15 - 25
Infrastructure.....	10 - 20

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

I. Deferred Outflows/Inflows of Resources

*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town did not have any elements that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town did not have any elements that qualify for reporting in this category. The Town has recorded deferred inflows of resources related to pensions in this category.

*Governmental Fund Financial Statements*

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded unavailable revenue as deferred inflows of resources in the governmental funds balance sheet.

J. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

*Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position.

*Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet.

K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

*Government-Wide Financial Statements*

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position.

*Fund Financial Statements*

Transfers between and within funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

L. Net Position and Fund Equity*Government-Wide Financial Statements (Net Position)*

Net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state’s school building program is not considered to be capital related debt.

Net position is reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been “restricted for” the following:

“Permanent funds - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other purposes” represents restrictions placed on assets from outside parties.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

*Fund Financial Statements (Fund Balances)*

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town meeting is the highest level of decision making authority for the government that can, by adoption of an ordinance prior to the end of the year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Board of Selectmen has by resolution authorized the Town Accountant to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure 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.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Dukes County Retirement System (DCRS) and additions to/deductions from the DCRS’s fiduciary net position have been determined on the same basis as they are reported by the DCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### N. Long-term debt

##### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

##### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

#### O. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

#### P. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

##### *Government-Wide Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

##### *Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

#### Q. Use of Estimates

##### *Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the year. Actual results could vary from estimates that were used.

#### R. Total Column

##### *Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

*Fund Financial Statements*

The total column 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 2 – CASH AND INVESTMENTS**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Chilmark's deposits may not be returned to it. The Town has a Board approved deposit policy for custodial credit risk. At year-end, the carrying amount of deposits totaled \$4,890,300 and the bank balance totaled \$4,697,207. Of the bank balance, \$750,583 was covered by Federal Depository Insurance, \$2,310,565 was covered by the Depositors Insurance Fund and \$1,636,059 was uncollateralized.

The Town also had \$345,903 classified as a cash equivalent invested in money market and certificates of deposit that were held by an investment firm. Included in the carrying amount of deposits is \$907,271 invested in certificates of deposit for the other postemployment benefit trust fund.

Investments

As of June 30, 2016, the Town of Chilmark had the following investments:

<b>Investment Type</b>	<u>Fair Value</u>	<u>Maturity Under 1 Year</u>	<u>Quality Ratings</u>
<u>Debt Securities:</u>			
U.S. Government Securities..... \$	349,979	\$ 349,979	AAA
Corporate Bonds.....	<u>144,083</u>	<u>144,083</u>	BBB+
Total Debt Securities.....	494,062	<u>\$ 494,062</u>	
<u>Other Investments:</u>			
Equity Securities.....	85,360		
Equity Mutual Funds.....	<u>54,579</u>		
Total Investments..... \$	<u>634,001</u>		

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in debt securities of \$144,083 and \$85,360 in equity securities are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the counterparty. The Town does not have a formal investment policy for custodial credit risk.

Concentration of Credit Risk

With the exception of US Treasury obligations or investments fully collateralized by US Treasuries or Agencies, and MMDT, the Town's investment policy limits the amount that may be invested in any one financial institution to no more than 30% of the Town's total investments. The policy does not limit the amount that may be invested in an individual security.

Fair Market Value of Investments

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town's mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a tabular format for disclosing the levels within the fair value hierarchy.

The Town categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The following table presents financial assets at June 30, 2016, that the Town measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investment Type	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Debt Securities:</u>				
U.S. Government Treasuries.....	\$ 349,979	\$ 349,979	\$ -	\$ -
Corporate bonds.....	144,083	-	144,083	-
Total debt securities.....	494,062	349,979	144,083	-
<u>Other investments:</u>				
Equity securities.....	85,360	85,360	-	-
Equity mutual funds.....	54,579	54,579	-	-
Total other investments.....	139,939	139,939	-	-
Total investments measured at fair value.....	\$ 634,001	\$ 489,918	\$ 144,083	\$ -

Government sponsored enterprises, U.S. government treasuries, equity securities, and equity mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bond classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

**NOTE 3 – RECEIVABLES**

At June 30, 2016, receivables for the individual major, non-major governmental funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 131,913	\$ -	\$ 131,913
Tax liens.....	60,628	-	60,628
Motor vehicle and other excise taxes.....	27,052	-	27,052
Intergovernmental.....	463,980	-	463,980
	<u>683,573</u>	<u>-</u>	<u>683,573</u>
Total.....	\$ <u>683,573</u>	\$ <u>-</u>	\$ <u>683,573</u>

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 67,966	\$ -	\$ 67,966
Tax liens.....	59,236	1,392	60,628
Motor vehicle and other excise taxes.....	27,050	-	27,050
Intergovernmental.....	-	3,561	3,561
	<u>154,252</u>	<u>4,953</u>	<u>159,205</u>
Total.....	\$ <u>154,252</u>	\$ <u>4,953</u>	\$ <u>159,205</u>

**NOTE 4 – CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 8,686,522	\$ -	\$ -	\$ 8,686,522
<u>Capital assets being depreciated:</u>				
Land improvements.....	64,500	-	-	64,500
Buildings.....	10,431,237	-	-	10,431,237
Vehicles.....	1,424,422	-	-	1,424,422
Equipment.....	710,160	-	-	710,160
Infrastructure.....	4,402,227	-	-	4,402,227
Total capital assets being depreciated.....	17,032,546	-	-	17,032,546
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,612)	(3,225)	-	(4,837)
Buildings.....	(3,075,533)	(257,818)	-	(3,333,351)
Vehicles.....	(1,165,927)	(45,387)	-	(1,211,314)
Equipment.....	(244,024)	(57,922)	-	(301,946)
Infrastructure.....	(973,731)	(144,440)	-	(1,118,171)
Total accumulated depreciation.....	(5,460,827)	(508,792)	-	(5,969,619)
Total capital assets being depreciated, net.....	11,571,719	(508,792)	-	11,062,927
Total governmental activities capital assets, net.....	\$ 20,258,241	\$ (508,792)	\$ -	\$ 19,749,449

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

**Governmental Activities:**

General government.....	\$ 117,541
Public safety.....	147,552
Education.....	91,909
Public works.....	92,773
Culture and recreation.....	59,017
Total depreciation expense - governmental activities.....	\$ 508,792

**NOTE 5 – INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2016, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Community Preservation	Community Preservation Capital Projects	Paving Projects	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ -	\$ -	\$ 100,000	\$ 7,095	\$ 107,095 (1)
Community Preservation.....	11,439	-	144,890	-	-	156,329 (2)
Nonmajor Governmental Funds.....	6,000	-	-	-	-	6,000 (3)
<b>Total.....</b>	<b>\$ 17,439</b>	<b>\$ -</b>	<b>\$ 144,890</b>	<b>\$ 100,000</b>	<b>\$ 7,095</b>	<b>\$ 269,424</b>

- (1) Budgeted transfer to fund paving project, conservation commission and cemetery lots.
- (2) Budgeted transfers for cost allocations and capital projects.
- (3) Budgeted transfer from waterways fund.

**NOTE 6 – OPERATING LEASE**

The Town leases a school building to the Up-Island Regional School District (District). The District has orally agreed to pay rent to the Town in the amount of the annual debt service costs associated with the original school construction project. Rental payments for 2016 totaled \$187,950 and are reported as lease income.

The minimum lease payments anticipated to be received in future years, based on the oral agreement, are as follows:

Years Ending June 30	Governmental Activities
2017.....	181,150
2018.....	170,687
2019.....	146,813
<b>Total.....</b>	<b>\$ 498,650</b>

**NOTE 7 – SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund. The Town had no short-term debt activity during the year.

**NOTE 8 – LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

In previous years, certain general obligation bonds were defeased by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2016, \$515,000 of Governmental Fund bonds outstanding from the advance refunding are considered defeased.

Details related to the outstanding indebtedness at June 30, 2016, and the debt service requirements are as follows:

**Bonds Payable Schedule – Governmental Funds**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
Municipal Purpose Bonds of 2011.....	2025	1,400,000	2.0 - 5.0	\$ 1,000,000	-	\$ 100,000	900,000
Municipal Purpose Refunding Bonds of 2011.....	2019	1,360,000	2.0 - 4.0	650,000	-	170,000	480,000
Municipal Purpose Bonds of 2012.....	2022	1,300,000	2.00	910,000	-	130,000	780,000
Municipal Purpose Bonds of 2015.....	2022	600,000	2.50	600,000	-	75,000	525,000
Municipal Purpose Refunding Bonds of 2015.....	2022	1,090,000	2.50	1,085,000	-	145,000	940,000
Total governmental bonds payable.....				\$ 4,245,000	\$ -	\$ 620,000	\$ 3,625,000

Debt service requirements for principal and interest for Governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2017.....	\$ 620,000	\$ 125,357	\$ 745,357
2018.....	610,000	103,106	713,106
2019.....	585,000	83,420	668,420
2020.....	440,000	64,607	504,607
2021.....	435,000	46,419	481,419
2022.....	435,000	29,226	464,226
2023.....	300,000	12,892	312,892
2024.....	100,000	4,500	104,500
2025.....	100,000	1,500	101,500
Total.....	\$ 3,625,000	\$ 471,027	\$ 4,096,027

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2016, the Town had no authorized and unissued debt.

Changes in Long-term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance		Additions		Reductions		Ending Balance		Due Within One Year
Long-term bonds.....	\$ 4,245,000	\$	-	\$	(620,000)	\$	3,625,000	\$	620,000
Compensated absences.....	183,677		22,742				206,419		20,600
Other postemployment benefits.....	1,482,930		422,387		(167,074)		1,738,243		-
Net pension liability.....	1,902,085		481,330		(309,585)		2,073,830		-
Total.....	<u>\$ 7,813,692</u>	\$	<u>926,459</u>	\$	<u>(1,096,659)</u>	\$	<u>7,643,492</u>	\$	<u>640,600</u>

**NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

At year end the balance of the General Stabilization Fund is \$792,221 and is reported as unassigned fund balance within the General Fund.

GASB 54 provides for two major types of fund balances, which are Nonspendable and Spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as Nonspendable.

In addition to the Nonspendable fund balance, GASB 54 has provided a hierarchy of Spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose

The Town has classified its fund balances with the following hierarchy:

	GOVERNMENTAL FUNDS					Total Governmental Funds
	General	Community Preservation	Community Preservation Capital Projects	Paving Projects	Nonmajor Governmental Funds	
FUND BALANCES						
Nonspendable:						
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ -	54,684	\$ 54,684
Restricted for:						
Community Preservation Fund Special Revenue.....	-	595,559	-	-	-	595,559
Community Preservation Fund Capital Project.....	-	-	639,162	-	-	639,162
Reserve for Appropriations.....	-	-	-	-	235,003	235,003
State Grants.....	-	-	-	-	113,232	113,232
Federal Grants.....	-	-	-	-	935	935
Gifts.....	-	-	-	-	161,091	161,091
Other Special Revenue Funds.....	-	-	-	-	741,205	741,205
Menemsha Pier.....	-	-	-	-	-	-
Town Hall Addition & Renovation.....	-	-	-	-	1,234	1,234
Permanent fund.....	-	-	-	-	16,855	16,855
Middle Line Road / Nab's Corner Project.....	-	-	-	-	8,572	8,572
Menemsha Pier.....	-	-	-	-	104,722	104,722
Committed to:						
General government.....	508,823	-	-	-	-	508,823
Public safety.....	72,310	-	-	-	-	72,310
Education.....	26,220	-	-	-	-	26,220
Public works.....	49,079	-	-	-	-	49,079
Human services.....	335	-	-	-	-	335
Culture and recreation.....	265	-	-	-	-	265
Assigned to:						
General government.....	9,240	-	-	-	-	9,240
Unassigned.....	1,578,536	-	-	-	-	1,578,536
TOTAL FUND BALANCES.....	\$ 2,244,808	\$ 595,559	\$ 639,162	\$ 10,539	\$ 1,437,533	\$ 4,927,601

## NOTE 10 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town is insured under a risk pool.

The Town participates in a health insurance risk pool trust administered by Cape Cod Municipal Health Group (Group), a non-profit organization incorporated in July of 1987 to obtain health insurance for member governments at costs eligible for larger groups. The Group offers a variety of premium based plans to its members with each participating governmental unit being charged a premium for coverage based on rates established by the Group. The Town is obligated to pay the group its required premiums and, in the event the Group is terminated, its pro-rata share of a deficit should one exist.

The Town participates in a workers' compensation insurance risk pool for its employees, which is administered by a third party administrator, the Massachusetts Interlocal Insurance Association (MIIA). MIIA is a nonprofit organization that provides insurance services to cities, towns and other local governmental entities of the Commonwealth.

**NOTE 11 – PENSION PLAN***Plan Description*

The Town is a member of the Dukes County Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 15 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan.

*Benefits Provided*

The System provides retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

*Contributions*

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the System a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The Town's proportionate share of the required contribution equaled its actual contribution for the year ended December 31, 2015 was \$327,377, 15.67% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

*Pension Liabilities*

At June 30, 2016, the Town reported a liability of \$2,073,830 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2015, the Town's proportion was 5.27%, which did not change from its proportion measured at December 31, 2014.

*Pension Expense*

For the year ended June 30, 2016, the Town recognized pension expense of \$290,362. At June 30, 2016, the Town reported deferred outflows of resources related to pensions of \$190,968, from the net difference between projected and actual investment earnings on pension plan investments. Since the System performs an actuarial valuation bi-annually, there are no reported differences between expected and actual experience or changes of assumptions as of December 31, 2014.

The Town’s deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017.....	\$ 45,688
2018.....	45,688
2019.....	45,688
2020.....	45,688
2021.....	<u>8,216</u>
Total.....	<u>\$ 190,968</u>

*Actuarial Assumptions* – The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2014:

Valuation date.....	January 1, 2014
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	<p>UAAL: Increasing dollar amount at 4.5% to reduce the unfunded actuarial accrued liability to zero on or before June 30, 2030.</p> <p>2002 &amp; 2003 ERI's - Increasing dollar amount at 4.5% to reduce the unfunded actuarial accrued liability to zero on or before June 30, 2028.</p>
Remaining amortization period.....	<p>15 years for UAL as of December 31, 2014</p> <p>13 years for the 2002 and 2003 ERI's as of 'December 31, 2014</p>
Asset valuation method.....	<p>The actuarial value of assets is the market value of the assets as of the valuation date reduced by the sum of:</p> <ul style="list-style-type: none"> <li>a) 80% of gains and losses of the prior year</li> <li>b) 40% of gains and losses of the second prior year</li> <li>c) 60% of gains and losses of the third prior year</li> <li>d) 20% of gains and losses of the fourth prior year</li> </ul> <p>Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of the assets is further constrained to be not less than 80% or more than 120% of market value.</p>

Inflation rate.....	Not explicitly assumed
Projected salary increases.....	6% - 4.25% of general employees and 7% - 4.75% for public safety, depending on years of service.
Cost of living adjustments.....	Cost of living adjustments are assumed to be 3% of the pension amount capped at \$420 per year.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.
Rates of disability.....	Varies based upon age for general employees, police and fire employees.
Mortality Rates:	
Pre-Retirement.....	The RP-2000 Mortality Table projected to 2020 with Scale AA
Post-Retirement.....	The RP-2000 Mortality Table projected to 2015 with Scale AA For disabled lives, set forth two years
Investment rate of return/Discount rate.....	7.75%, net of pension plan investment expense, including inflation

#### *Investment Policy*

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining 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 ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding 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	Long-Term Expected Real Rate of Return	Target Allocation
Domestic equity.....	7.00%	40.00%
International equity.....	4.00%	15.00%
Fixed income.....	2.40%	25.00%
Real estate.....	7.10%	10.00%
Timber.....	4.90%	2.50%
Alternatives - Private equity.....	12.10%	5.00%
Hedge funds.....	2.70%	2.50%

#### *Rate of return*

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.95%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*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 rate and that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount (7.75%)</u>	<u>1% Increase (8.75%)</u>
The Town's proportionate share of the net pension liability.....	\$ 3,038,152	\$ 2,073,830	\$ 1,250,819

**NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description* – The Town of Chilmark administers a single-employer defined benefit healthcare plan (Plan). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy* – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 75 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25 percent of their premium costs.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish the Postemployment Benefit Trust Fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. During 2016, the Town pre-funded future OPEB liabilities in the amount of \$100,000.

*Annual OPEB Cost and Net OPEB Obligation* – The Town’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$	408,924
Interest on net OPEB obligation.....		59,317
Adjustment to annual required contribution.....		<u>(45,854)</u>
Annual OPEB cost (expense).....		422,387
Contributions made.....		<u>(167,076)</u>
Increase/Decrease in net OPEB obligation.....		255,311
Net OPEB obligation - beginning of year.....		<u>1,482,930</u>
Net OPEB obligation - end of year.....	\$	<u><u>1,738,241</u></u>

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2016	\$ 422,387	40%	\$ 1,738,241
6/30/2015	405,591	41%	1,482,930
6/30/2014	494,144	54%	1,318,522

*Funded Status and Funding Progress* – As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$6.3 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.5 million, and the ratio of the UAAL to the covered payroll was 413 percent.

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 as required supplementary information following the notes to 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 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 the 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.

In the July 1, 2014 actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.0% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 8.0% initially, graded to 5.0% after 5 years. The UAAL is being amortized over a 30 year period, with amortization payments increasing at 4.5% per year. The remaining amortization period at June 30, 2016, is 30 years.

#### **NOTE 13 – CONTINGENCIES**

The Town participates in a number of federal award programs. The programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2016, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2016.

The Town is contingently liable for any deficit, including the operating and debt service costs, which may be incurred by the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority"). The percentage of any deficit as it is established by the county, not the Steamship Authority, in the same proportions of the assessment of county tax.

As of December 31, 2015, the Authority had \$71,895,000 of bonds outstanding and the amount of monies in its reserve fund totaled \$3,597,750. For the year ended December 31, 2015, the Authorities operating revenues exceeded costs of service by \$11,302,871 (Income before Capital Grants and Contributions; Income from Special-Purpose Restricted Funds; and Special Item – Teamsters Pension Merger. Change in Net Position in 2014 was \$12,646,006 when capital grants; income from special-purpose funds and the special item for the Teamsters pension merger are included). The Town is not required to make payment to the Authority unless the amount in the Authority's reserve is insufficient. Since 1962, the Town has never had to make a payment to the Authority.

#### **NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 21, 2016, which is the date the financial statements were available to be issued.

#### **NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2016, the following GASB pronouncements were implemented:

- GASB Statement #72, *Fair Value Measurement and Application*. Notes to the basic financial statements were changed to provide additional disclosure on fair value measurement.

- GASB Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This pronouncement did not impact the basic financial statements
- GASB Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.
- GASB Statement #79, *Certain External Investment Pools and Pool Participants*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.
- The GASB issued Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*, which is required to be implemented in 2018.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

# ***Required Supplementary Information***

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# ***General Fund Budgetary Schedule***

The General Fund is the general operating fund of the Town. It is used to account for all the financial resources, except those required to be accounted for in another fund.

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 8,240,094	\$ 8,240,094	\$ 8,240,094
Motor vehicle and other excise taxes.....	-	185,000	185,000	185,000
Hotel/motel tax.....	-	55,000	55,000	55,000
Charges for services.....	-	41,500	41,500	41,500
Penalties and interest on taxes.....	-	22,000	22,000	22,000
Fees and rentals.....	-	463,000	463,000	463,000
Licenses and permits.....	-	100,000	100,000	100,000
Fines and forfeitures.....	-	6,500	6,500	6,500
Intergovernmental.....	-	8,691	8,691	8,691
Lease income.....	-	263,050	263,050	263,050
Departmental and other.....	-	2,700	2,700	2,700
Investment income.....	-	-	-	-
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>9,387,535</b>	<b>9,387,535</b>	<b>9,387,535</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	267,279	1,196,687	1,463,966	1,766,966
Public safety.....	70,271	1,499,016	1,569,287	1,604,169
Education.....	-	3,110,258	3,110,258	3,202,429
Public works.....	15,136	345,749	360,885	404,885
Human services.....	6,710	222,402	229,112	229,112
Culture and recreation.....	265	566,348	566,613	566,613
Pension benefits.....	-	333,485	333,485	333,485
Property and liability insurance.....	-	206,809	206,809	206,809
Employee benefits.....	-	791,131	791,131	791,131
State and county charges.....	-	391,021	391,021	452,564
Debt service:		-		
Principal.....	-	620,000	620,000	620,000
Interest.....	-	109,944	109,944	109,944
<b>TOTAL EXPENDITURES.....</b>	<b>359,661</b>	<b>9,392,850</b>	<b>9,752,511</b>	<b>10,288,107</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(359,661)</b>	<b>(5,315)</b>	<b>(364,976)</b>	<b>(900,572)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	-	-	-	-
Transfers out.....	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(359,661)</b>	<b>(5,315)</b>	<b>(364,976)</b>	<b>(900,572)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>996,495</b>	<b>996,495</b>	<b>996,495</b>	<b>996,495</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 636,834</b>	<b>\$ 991,180</b>	<b>\$ 631,519</b>	<b>\$ 95,923</b>

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$	8,418,534	\$ -	\$ 178,440
	213,012	-	28,012
	56,740	-	1,740
	53,271	-	11,771
	24,965	-	2,965
	508,686	-	45,686
	118,563	-	18,563
	8,025	-	1,525
	4,935	-	(3,756)
	263,050	-	-
	72,815	-	70,115
	4,209	-	4,209
	<u>9,746,805</u>	<u>-</u>	<u>359,270</u>
	1,236,260	508,823	21,883
	1,507,083	72,310	24,776
	3,026,319	26,220	149,890
	402,049	49,079	(46,243)
	218,305	335	10,472
	571,715	265	(5,367)
	327,377	-	6,108
	163,328	-	43,481
	746,364	-	44,767
	425,620	-	26,944
	620,000	-	-
	110,044	-	(100)
	<u>9,354,464</u>	<u>657,032</u>	<u>276,611</u>
	<u>392,341</u>	<u>(657,032)</u>	<u>635,881</u>
	17,439	-	17,439
	(17,634)	-	(17,634)
	<u>(195)</u>	<u>-</u>	<u>(195)</u>
	392,146	(657,032)	635,686
	<u>996,495</u>	<u>-</u>	<u>-</u>
\$	<u><u>1,388,641</u></u>	<u><u>(657,032)</u></u>	<u><u>635,686</u></u>

# ***Pension Plan Schedules***

The Schedule of the Town's Proportionate Share of the Net Pension Liability presents multi-year trend information on the Town's net pension liability and related ratios.

The Schedule of Contributions presents multi-year trend information on the Town's required and actual contributions to the pension plan and related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
DUKES COUNTY RETIREMENT SYSTEM**

	December 31, 2015	December 31, 2014
Town's proportion of the net pension liability (asset).....	5.277%	5.277
Town's proportionate share of the net pension liability (asset)..... \$	2,073,830	\$ 1,902,085
Town's covered employee payroll (*)..... \$	2,089,509	\$ 2,009,143
Net pension liability as a percentage of covered-employee payroll.....	99.25%	94.67%
Plan fiduciary net position as a percentage of the total pension liability.....	76.17%	76.17%

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.

\*Covered employee payroll as reported in January 1, 2014, funding  
valuation report.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**

	December 31, 2015	December 31, 2014
Actuarially determined contribution (a).....	\$ 327,377	300,966
Contributions in relation to the actuarially determined contribution.....	\$ 327,377	300,966
Contribution deficiency (excess).....	\$ -	-
Covered-employee payroll (*).....	\$ 2,089,509	2,009,143
Contributions as a percentage of covered- employee payroll.....	15.67%	14.98%

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.

(a) Based on the results of the January 1, 2014, actuarial  
valuation (including assumptions and methods) which  
determined budgeted appropriations for fiscal 2015.

\*Covered employee payroll as reported in January 1, 2014, funding  
valuation report.

See notes to required supplementary information.

# ***Other Postemployment Benefits Plan Schedules***

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

**OTHER POSTEMPLOYMENT BENEFIT PLAN  
SCHEDULE OF FUNDING PROGRESS**

JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2014	\$ 609,169	\$ 6,293,093	\$ 5,683,924	9.7%	\$ 1,491,869	381.0%
7/1/2012	403,576	5,906,334	5,502,758	6.8%	1,332,949	412.8%
7/1/2010	403,756	5,732,441	5,328,685	7.0%	1,284,019	415.0%
6/30/2008	-	4,627,643	4,627,643	0.0%	1,729,519	267.6%

The Town implemented GASB Statement No. 45 for the year ended June 30, 2010.  
Information for prior years is not available.

See notes to required supplementary information.

**OTHER POST-EMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

YEAR ENDED JUNE 30, 2016

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Actuarial Methods:

Valuation date..... July 1, 2014

Actuarial cost method..... Projected Unit Credit

Amortization method..... Increasing at 4.5% over 30 years on an open amortization period for partial pre-funding. Increasing at 4.5% over 30 years on a closed amortization period for full pre-funding.

Actuarial Assumptions:

Investment rate of return..... 4.0% partial funding / 7.0% full funding

Health care cost trend rates..... 8.0%, decreasing to 5.0% after 5 years

Post-Retirement Mortality..... For general and public safety employees are based on the RP-2014 Mortality Table, projected with full generational mortality improvement using Scale MP-2014.

Pre-Retirement Mortality..... For general and public safety employees are based on the RP-2014 Mortality Table, projected with full generational mortality improvement using Scale MP-2014.

Plan Membership:

Current retirees, beneficiaries, and dependents.....	14
Current active members.....	<u>28</u>
Total.....	<u><u>42</u></u>

See notes to required supplementary information.

**NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the Board of Selectmen (Board) and the Finance Advisory Committee (Committee). The Board and the Committee presents an annual budget to the Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Town Meeting approval via a supplemental appropriation.

The majority of appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year’s original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote at Town Meeting.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2016 approved budget authorized \$9.5 million in appropriations and other amounts to be raised.

The Town Accountant has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2016, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$	392,146
<u>Perspective difference:</u>		
Activity of the stabilization fund in the general fund for GAAP.....		(93,752)
<u>Basis of accounting differences:</u>		
Net change in 60 day receipts.....		<u>73,963</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	\$	<u><u>372,357</u></u>

**NOTE B – PENSION PLAN**Schedule of the Town's Proportionate Share of the Net Pension Liability

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

Schedule of Town's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on covered payroll.

Changes in Assumptions - None

Changes in Plan Provisions - None

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Town administers a single-employer defined benefit healthcare plan ("The Retiree Health Plan"). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town's group health and life insurance plans, which cover both active and retired members.

The Town currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress and Employer Contributions present multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets. Since this is the Town's initial year of implementation of GASB Statement 45, information for prior years is not available.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the 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 Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.