

TOWN OF ORLEANS, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2016

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2016

TOWN OF ORLEANS, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Orleans, Massachusetts, (the Town) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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 of 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 those risks of material misstatement to 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 purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund,

and the aggregate remaining fund information of the Town as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

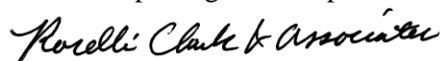
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Town's proportionate share of net pension liability and the Town's contributions to pension plan, the schedule of the Commonwealth's share of the net pension liability of the Massachusetts Teacher's Retirement System, the funding progress and contribution funding for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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's internal control over the financial reporting and compliance.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 19, 2016

Management's Discussion and Analysis

As the management of the Town of Orleans, Massachusetts (The Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found in this report.

Financial Highlights

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$51.4 million (*total net position*). Approximately \$40.1 million represented net position of governmental activities and \$11.3 million represented net position of the business-type activities.
- The government's total net position increased by approximately \$2.4 million, or approximately 4.8%, year to year. The governmental activities increased net position by approximately \$2.1 million while the business-type activities increased net position by approximately \$0.3 million.
- The Town's unassigned fund balance reported in the General Fund was approximately \$3.3 million (11.4% of General Fund expenditures). Total fund balance in the General Fund was approximately \$6.3 million (21.6% of General Fund expenditures). Furthermore, the Town reported a restricted fund balance of approximately \$1.5 million in the Community Preservation Act Fund; an unassigned fund deficit of over \$2.5 million in the Capital Projects Fund; and reported total fund balances of approximately \$4.0 million in the Nonmajor Governmental Funds.
- Regular scheduled maturities of debt were approximately \$2.1 million. Of this amount, \$1.8 million related to governmental activities and \$0.3 million to business-type activities. General obligation bonds of approximately \$4.4 million were issued during the fiscal year. Of this amount approximately \$2.9 million represented governmental activities issuance while \$1.5 million represented business-type activities issuance.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net position* presents information on all of the Town's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, education highways and streets, sanitation, health and human services, culture and recreation, fringe benefits, and debt service. The business-type activities of the Town consist completely of water service activities.

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

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed—amounts constrained by a government using its highest level of decision-making authority
- Assigned—amounts a government intends to use for a particular purpose
- Unassigned—amounts that are not constrained at all will be reported in the general fund or in other major funds if negative

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided in the basic financial statements to help the reader understand the differences, as indicated within the table of contents.

The Town maintains a number of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Community Preservation Act Fund and Capital Projects Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town 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. This schedule has been prepared as required supplementary information and can be found after the notes to the financial statements.

Proprietary Funds – The Town maintains only one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for the water enterprise fund activities.

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. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains fiduciary funds for scholarships and citizens in need of benefits.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town’s proportionate share of net pension liability, contributions to pension plan, information regarding the Town’s special funding situation for teacher contributions to pensions and funding and contribution progress of the Town’s other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The assets and deferred outflows of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$51.4 million (*total net position*). This was an increase of nearly \$2.4 million over the preceding year.

The condensed statement of net position is as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<u>Assets</u>						
Current and other assets	\$ 15,928,136	\$ 13,034,375	\$ 3,460,275	\$ 3,061,526	\$ 19,388,411	\$ 16,095,901
Capital assets, net	74,034,854	71,605,285	14,306,414	13,384,687	88,341,268	84,989,972
Total assets	89,962,990	84,639,660	17,766,689	16,446,213	107,729,679	101,085,873
<u>Deferred Outflows of Resources</u>	2,154,200	505,712	106,712	1,780	2,260,912	507,492
<u>Liabilities</u>						
Long-term liabilities	46,358,326	42,230,206	5,161,726	3,733,365	51,520,052	45,963,571
Other liabilities	5,644,854	4,874,766	1,400,732	1,705,527	7,045,586	6,580,293
Total liabilities	52,003,180	47,104,972	6,562,458	5,438,892	58,565,638	52,543,864
<u>Deferred Inflows of Resources</u>	-	-	-	-	-	-
<u>Net Position</u>						
Net investment in capital assets	54,575,558	57,238,932	9,923,183	9,804,078	64,498,741	67,043,010
Restricted	5,533,722	5,126,411	-	-	5,533,722	5,126,411
Unrestricted	(19,995,270)	(24,324,943)	1,387,760	1,205,023	(18,607,510)	(23,119,920)
Total net position	\$ 40,114,010	\$ 38,040,400	\$ 11,310,943	\$ 11,009,101	\$ 51,424,953	\$ 49,049,501

By far the largest portion approximately \$64.5 million of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (approximately \$5.5 million) represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position* reflects the remainder of net position; a deficit of approximately \$18.6 million. This consisted of Governmental activities unrestricted net position which is in a deficit position of approximately \$20.0 million. This is due to the recognition of other postemployment benefits (net OPEB obligation) of approximately \$8.4 million since the implementation of Governmental Accounting Standards Board Statement ("GASB") No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal year 2009, and the implementation of GASB 68 in 2015, which, resulted in the recognition of almost \$19.0 million in net pension liability. In similar fashion, the Business-type activities included a net OPEB obligation of over \$0.3 million and a net pension liability of over \$1.1 million.

The condensed statement of changes in net position is as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenues						
Program revenues:						
Charges for services	\$ 3,771,838	\$ 3,773,321	\$ 2,554,504	\$ 2,279,635	\$ 6,326,342	\$ 6,052,956
Operating grants and contributions	1,568,280	975,894	-	-	1,568,280	975,894
Capital grants and contributions	632,604	484,690	-	-	632,604	484,690
General revenues:						
Property taxes	24,731,281	23,854,677	-	-	24,731,281	23,854,677
Intergovernmental	176,710	226,173	-	-	176,710	226,173
Other	1,911,171	1,797,746	-	-	1,911,171	1,797,746
Total Revenues	32,791,884	31,112,501	2,554,504	2,279,635	35,346,388	33,392,136
Expenses						
General government	4,402,542	4,537,132	-	-	4,402,542	4,537,132
Public safety	8,648,112	7,895,361	-	-	8,648,112	7,895,361
Education	10,170,074	9,700,978	-	-	10,170,074	9,700,978
Public works	2,777,855	4,779,865	-	-	2,777,855	4,779,865
Health and human services	1,612,837	1,516,096	-	-	1,612,837	1,516,096
Culture and recreation	2,999,398	3,046,775	-	-	2,999,398	3,046,775
Debt service	489,438	545,524	-	-	489,438	545,524
Water	-	-	1,870,680	1,823,381	1,870,680	1,823,381
Total Expenses	31,100,256	32,021,731	1,870,680	1,823,381	32,970,936	33,845,112
Change in net position before transfers	1,691,628	(909,230)	683,824	456,254	2,375,452	(452,976)
Transfers	381,982	308,153	(381,982)	(308,153)	-	-
Change in net position	2,073,610	(601,077)	301,842	148,101	2,375,452	(452,976)
Net position, beginning of year	38,040,400	38,641,477	11,009,101	10,861,000	49,049,501	49,502,477
Net position, end of year	<u>\$ 40,114,010</u>	<u>\$ 38,040,400</u>	<u>\$ 11,310,943</u>	<u>\$ 11,009,101</u>	<u>\$ 51,424,953</u>	<u>\$ 49,049,501</u>

Governmental Activities – The town relies significantly on property taxes, which during 2016 made up approximately 75.4% of total revenues, down from 76.7% in the prior year. In dollar comparisons, the

amounts increased within expectations by up to the legally allowed 2 1/2 % plus new growth and debt exclusion impacts. A significant portion of the remaining revenues is made up of charges for services, such as beach fees, transfer station fees, and ambulance; such revenues made up 11.5% of total revenues, down slightly from 12.1% in prior year. Both of these revenue sources met the expectations of management, as activity was reasonably consistent from year to year. No other revenues were greater than 10% of total revenues in 2016 or 2015.

Major expenses were for education which continues to be an area the Town devotes significant resources towards; education represented 32.7% of total expenses, up slightly from the prior year 30.3%. This was due to an increase in the Town's special funding situation with the Massachusetts Teacher's Retirement System. Public safety expenses represented 27.8% of total expenses, up from the prior year of 24.7%. This was due to some salary increases as well as an increase in pension expense allocated to this function. Finally, general government expenses represented 14.2%, which is consistent with the prior year of 14.2%. No other expense types were greater than 10% of total expenses in 2016 or 2015.

Business-type Activities – Major revenue sources consist of revenue from users which represented approximately 100% of total revenues. Water expenses represented 100% of total business-type expenses. These also included debt service costs.

Financial Analysis of the Governmental 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's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. 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 fiscal year.

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$9.2 million. This represents an increase of over \$2.0 million from the previous year. This increase is primarily attributable to the proceeds from long-term debt issuance of approximately \$2.7 million offset by an increase in various capital projects spending from prior year. Of the ending total fund balance, approximately \$0.7 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was approximately \$3.3 million, while total fund balance within that fund reached approximately \$6.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 11.4% of total General Fund expenditures, while total fund balance represents approximately 21.6% of that same amount.

Furthermore, the Town reported a restricted fund balance of approximately \$1.5 million in the Community Preservation Act Fund; an unassigned fund deficit of over \$2.5million in the Capital Projects Fund; and reported total fund balances of approximately \$4.0 million in the Nonmajor Governmental Funds.

Proprietary Funds – The Town's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. At the end of the year, net position of the Water Enterprise Fund was approximately \$11.3 million.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were insignificant. A budget to actual schedule for the General Fund has been provided as required supplementary information as noted within the table of contents.

Capital Asset and Debt Administration

Capital Assets – The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to approximately \$88.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects an increase of approximately \$3.4 million net of depreciation, as additions of approximately \$5.4 million were offset by depreciation of approximately \$2.0 million.

The Town has undergone significant capital improvements over the past several years. These include major improvements and additions to infrastructure assets, more specifically education buildings, police station, roads and water distribution components; along with vehicles and major purchases to preserve open space.

Additional information on the Town capital assets can be found in Note II, Section C of this report.

Long-Term Debt – At the end of the current fiscal year, the Town had total debt outstanding of \$19.4 million. Of this amount, approximately \$16.0 million represents debt of the governmental activities and approximately \$3.4 million represents general obligation bonds of business-type activities.

Regular scheduled maturities of debt were approximately \$2.1 million. Of this amount, \$1.8 million related to governmental activities and \$0.3 million to business-type activities. General obligation bonds of approximately \$4.4 million were issued during the fiscal year in aggregate for governmental activities and business-type.

The last bond rating received by the Town was an “AAA” as set by Standard and Poor for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$173 million, which is significantly in excess of the Town’s outstanding general obligation debt.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town’s boundaries. The debt service from such arrangements is assessed annually to the Town.

Additional information on the Town’s debt can be found in Note II, Sections E and F of this report.

Economic Factors and Next Year’s Budgets and Rates

- Consistent with both State and National work force trends, the Town’s unemployment rates have continued to stabilize, with little volatility in the last 12 months.
- The Town’s real estate tax base is made up predominantly of residential taxes, which comprise over 92.3% of the Town’s real estate tax base. The Town also relies to a much lesser extent on its commercial and industrial real estate tax base, which in aggregate comprise nearly 6.5% of the Town’s real estate tax base. In addition, Chapter 580 of the Acts of 1980, more commonly referred to

as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy. This limit may be exceeded through a majority vote at Town Meeting along with ballot approval.

- The Town's housing market has stabilized and housing prices in this area of the country on average rose from the recent downward trend; however, housing prices are still below their 2005 peaks.
- Tourism in the area remains constant and supportive of Town operations, and valuation growth engenders a strong tax base.

The above items were considered when the Town developed its budget for fiscal year 2017. The Town anticipates setting its tax rate for fiscal 2017 before December 31, 2016.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Director of Finance, 19 School Road, Orleans, Massachusetts 02653.

TOWN OF ORLEANS, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 14,171,015	\$ 2,401,613	\$ 16,572,628
Receivables (net):			
Property taxes	873,834	-	873,834
User fees	-	1,058,662	1,058,662
Other	361,214	-	361,214
Intergovernmental	522,073	-	522,073
Capital assets, not being depreciated	43,080,602	2,379,469	45,460,071
Capital assets, net of accumulated depreciation	30,954,252	11,926,945	42,881,197
Total Assets	<u>89,962,990</u>	<u>17,766,689</u>	<u>107,729,679</u>
Deferred Outflows of Resources	<u>2,154,200</u>	<u>106,712</u>	<u>2,260,912</u>
Liabilities			
Warrants and accounts payable	818,854	73,610	892,464
Accrued payroll and withholdings	526,909	-	526,909
Other liabilities	4,997	-	4,997
Bond anticipation notes payable	4,294,094	1,327,122	5,621,216
Noncurrent liabilities:			
Due within one year	2,749,930	559,464	3,309,394
Due in more than one year	43,608,396	4,602,262	48,210,658
Total Liabilities	<u>52,003,180</u>	<u>6,562,458</u>	<u>58,565,638</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Net Position			
Net investment in capital assets	54,575,558	9,923,183	64,498,741
Restricted:			
Nonexpendable permanent funds	148,826	-	148,826
Expendable permanent funds	1,621,925	-	1,621,925
Federal and State grants	192,325	-	192,325
Community preservation	1,521,445	-	1,521,445
Other purposes	2,049,201	-	2,049,201
Unrestricted	(19,995,270)	1,387,760	(18,607,510)
Total Net Position	<u>\$ 40,114,010</u>	<u>\$ 11,310,943</u>	<u>\$ 51,424,953</u>

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 4,402,542	\$ 440,724	\$ 6,875	\$ -	\$ (3,954,943)		\$ (3,954,943)
Public safety	8,648,112	1,224,470	83,304	-	(7,340,338)		(7,340,338)
Education	10,170,074	47,356	1,033,682	-	(9,089,036)		(9,089,036)
Public works	2,777,855	464,891	-	373,371	(1,939,593)		(1,939,593)
Health and human services	1,612,837	206,302	152,576	-	(1,253,959)		(1,253,959)
Culture and recreation	2,999,398	1,388,095	291,843	259,233	(1,060,227)		(1,060,227)
Debt service	489,438	-	-	-	(489,438)		(489,438)
Total governmental activities	<u>31,100,256</u>	<u>3,771,838</u>	<u>1,568,280</u>	<u>632,604</u>	<u>(25,127,534)</u>		<u>(25,127,534)</u>
Business-type activities:							
Water	1,870,680	2,554,504	-	-		\$ 683,824	683,824
Total business-type activities	<u>1,870,680</u>	<u>2,554,504</u>	<u>-</u>	<u>-</u>		<u>683,824</u>	<u>683,824</u>
Total Primary Government	<u>\$ 32,970,936</u>	<u>\$ 6,326,342</u>	<u>\$ 1,568,280</u>	<u>\$ 632,604</u>	<u>(25,127,534)</u>	<u>683,824</u>	<u>(24,443,710)</u>
General revenues:							
Property taxes					24,731,281	-	24,731,281
Motor vehicle and other excise					1,776,060	-	1,776,060
Grants and contributions not restricted to specific programs					176,710	-	176,710
Penalties and interest on taxes					107,472	-	107,472
Unrestricted investment income					27,639	-	27,639
Transfers (net)					<u>381,982</u>	<u>(381,982)</u>	<u>-</u>
Total general revenues and transfers					<u>27,201,144</u>	<u>(381,982)</u>	<u>26,819,162</u>
Change in Net Position					2,073,610	301,842	2,375,452
Net Position :							
Beginning of year					<u>38,040,400</u>	<u>11,009,101</u>	<u>49,049,501</u>
End of year					<u>\$ 40,114,010</u>	<u>\$ 11,310,943</u>	<u>\$ 51,424,953</u>

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Community Preservation Act Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 6,977,452	\$ 1,521,445	\$ 1,906,696	\$ 3,765,422	\$ 14,171,015
Receivables, net of allowance for uncollectibles:					
Property taxes	855,296	18,538	-	-	873,834
Other	131,179	-	-	206,280	337,459
Intergovernmental	61,931	-	179,177	280,965	522,073
Due from agency	23,755	-	-	-	23,755
Total Assets	<u>8,049,613</u>	<u>1,539,983</u>	<u>2,085,873</u>	<u>4,252,667</u>	<u>15,928,136</u>
Deferred Outflows of Resources	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 8,049,613</u>	<u>\$ 1,539,983</u>	<u>\$ 2,085,873</u>	<u>\$ 4,252,667</u>	<u>\$ 15,928,136</u>
Liabilities:					
Warrants and accounts payable	\$ 425,960	\$ -	\$ 335,132	\$ 57,762	\$ 818,854
Accrued payroll	526,909	-	-	-	526,909
Bond anticipation notes payable	-	-	4,294,094	-	4,294,094
Other liabilities	4,924	-	-	73	4,997
Total Liabilities	<u>957,793</u>	<u>-</u>	<u>4,629,226</u>	<u>57,835</u>	<u>5,644,854</u>
Deferred Inflows of Resources:					
Unavailable revenue - property taxes	706,295	18,538	-	-	724,833
Unavailable revenue - excise taxes	131,179	-	-	-	131,179
Unavailable revenue - other	-	-	-	206,280	206,280
Total Deferred Inflows of Resources	<u>837,474</u>	<u>18,538</u>	<u>-</u>	<u>206,280</u>	<u>1,062,292</u>
Fund Balances:					
Nonspendable	-	-	-	148,826	148,826
Restricted	361,224	1,521,445	-	3,863,451	5,746,120
Committed	1,351,194	-	-	-	1,351,194
Assigned	1,251,173	-	-	-	1,251,173
Unassigned	3,290,755	-	(2,543,353)	(23,725)	723,677
Total Fund Balances	<u>6,254,346</u>	<u>1,521,445</u>	<u>(2,543,353)</u>	<u>3,988,552</u>	<u>9,220,990</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 8,049,613</u>	<u>\$ 1,539,983</u>	<u>\$ 2,085,873</u>	<u>\$ 4,252,667</u>	<u>\$ 15,928,136</u>

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Governmental Fund Balances	\$ 9,220,990
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	74,034,854
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	1,062,292
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds:	
Net difference between projected and actual earnings on pension plan investments	1,505,420
Changes in proportion and differences between Town contributions and the proportionate share of contributions	215,139
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	(16,023,849)
Add: Deferred charge on refunding	433,641
Less: Unamortized bond premium	(912,435)
Compensated absences	(1,396,948)
Post-closing landfill monitoring costs	(680,000)
Other postemployment benefits	(8,374,589)
Net pension liability	<u>(18,970,505)</u>
Net Position of Governmental Activities	<u><u>\$ 40,114,010</u></u>

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
JUNE 30, 2016

	General Fund	Community Preservation Act Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 23,843,641	\$ 707,884	\$ -	\$ -	\$ 24,551,525
Intergovernmental	1,043,880	259,233	143,228	568,762	2,015,103
Motor vehicle and other excises	1,709,312	-	-	-	1,709,312
Licenses and permits	903,676	-	-	-	903,676
Departmental and other revenue	1,665,054	-	-	1,305,986	2,971,040
Penalties and interest on taxes	105,309	2,163	-	-	107,472
Fines and forfeitures	86,967	-	-	-	86,967
Investment income	16,799	4,019	-	6,821	27,639
Contributions and donations	-	1,885	-	360,606	362,491
Total Revenues	<u>29,374,638</u>	<u>975,184</u>	<u>143,228</u>	<u>2,242,175</u>	<u>32,735,225</u>
Expenditures:					
Current:					
General government	2,767,485	-	357,654	165,642	3,290,781
Public safety	5,976,711	-	901,121	85,430	6,963,262
Education	7,923,654	-	464,529	89,409	8,477,592
Public works	1,600,878	-	1,498,045	298,502	3,397,425
Health and human services	1,048,360	-	-	91,100	1,139,460
Culture and recreation	2,064,876	171,833	200,000	61,103	2,497,812
Fringe and pension benefits	5,177,982	-	-	-	5,177,982
State and county tax assessments	561,378	-	-	-	561,378
Debt service:					
Principal	1,375,000	395,000	60,000	-	1,830,000
Interest	471,103	96,421	-	-	567,524
Total Expenditures	<u>28,967,427</u>	<u>663,254</u>	<u>3,481,349</u>	<u>791,186</u>	<u>33,903,216</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>407,211</u>	<u>311,930</u>	<u>(3,338,121)</u>	<u>1,450,989</u>	<u>(1,167,991)</u>
Other Financing Sources (Uses):					
Transfers in	1,595,238	-	928,000	-	2,523,238
Transfers out	(928,000)	-	-	(1,213,256)	(2,141,256)
Premiums from issuance of bonds	229,173	-	-	-	229,173
Proceeds from long-term debt issuance	-	-	2,623,849	-	2,623,849
Total Other Financing Sources (Uses)	<u>896,411</u>	<u>-</u>	<u>3,551,849</u>	<u>(1,213,256)</u>	<u>3,235,004</u>
Net Change in Fund Balances	<u>1,303,622</u>	<u>311,930</u>	<u>213,728</u>	<u>237,733</u>	<u>2,067,013</u>
Fund Balances - Beginning	<u>4,950,724</u>	<u>1,209,515</u>	<u>(2,757,081)</u>	<u>3,750,819</u>	<u>7,153,977</u>
Fund Balances - Ending	<u>\$ 6,254,346</u>	<u>\$ 1,521,445</u>	<u>\$ (2,543,353)</u>	<u>\$ 3,988,552</u>	<u>\$ 9,220,990</u>

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2016**

	Total
Net Change in Fund Balances - Total Governmental Fund Balances	\$ 2,067,013
<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. Governmental funds also report proceeds from the sale of fixed assets as revenue, however in the Statement of Activities a gain or loss from disposal is recorded. The net amounts are reflected here as reconciling items:</p>	
Capital outlays	\$ 3,913,881
Depreciation expense	(1,484,312)
Net effect of reporting capital assets	2,429,569
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:</p>	
Issuance of bonds and notes	(2,623,849)
Amortization of deferred charge on refunding	(43,364)
Amortization of bond premium	(107,723)
Repayments of debt	1,830,000
Net effect of reporting long-term debt	(944,936)
<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 differ between the two statements. The amount presented represents the following differences derived from unavailable revenue.</p>	
	56,659
<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>	
Compensated absences	(36,129)
Other postemployment benefits	(1,016,227)
Pension benefits	(516,339)
Post-closing landfill monitoring costs	34,000
Net effect of reporting long-term liabilities	(1,534,695)
Change in Net Position of Governmental Activities	\$ 2,073,610

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

JUNE 30, 2016

	Business-Type Enterprise Fund Water
Assets:	
Current assets:	
Cash and cash equivalents	\$ 2,401,613
Receivables, net:	
User charges	1,058,662
Total current assets	3,460,275
Noncurrent assets:	
Capital assets, not being depreciated	2,379,469
Capital assets, net of depreciation	11,926,945
Total noncurrent assets	14,306,414
Total Assets	17,766,689
Deferred Outflows of Resources	106,712
Liabilities:	
Current liabilities:	
Warrants and accounts payable	73,610
Bond anticipation note payable	1,327,122
Bonds and notes payable	546,770
Compensated absences	12,694
Total current liabilities	1,960,196
Noncurrent liabilities:	
Bonds and notes payable	2,970,369
Compensated absences	114,245
Other postemployment benefits	341,058
Net pension liability	1,176,590
Total noncurrent liabilities	4,602,262
Total Liabilities	6,562,458
Net Position:	
Net investment in capital assets	9,923,183
Unrestricted	1,387,760
Total Net Position	\$ 11,310,943

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016**

	<u>Business-Type Enterprise Fund Water</u>
Operating Revenues:	
Charges for services	\$ 2,460,868
Other	93,636
Total Operating Revenues	<u>2,554,504</u>
Operating Expenses:	
Operating costs	1,366,609
Depreciation	431,251
Total Operating Expenses	<u>1,797,860</u>
Operating Income (Loss)	<u>756,644</u>
Nonoperating Revenues (Expenses):	
Interest expense	<u>(72,820)</u>
Total Nonoperating Revenues (Expenses)	<u>(72,820)</u>
Income (Loss) Before Transfers	683,824
Transfers out	<u>(381,982)</u>
Change in Net Position	301,842
Net Position - Beginning	<u>11,009,101</u>
Net Position - Ending	<u><u>\$ 11,310,943</u></u>

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016**

	Business-Type Enterprise Fund Water
Cash Flows from Operating Activities	
Receipts from users	\$ 2,402,903
Payments to vendors and employees	(1,169,941)
Net Cash Provided by (Used for) Operating Activities	1,232,962
Cash Flows from Noncapital Related Financing Activities	
Transfers out	(381,982)
Net Cash (Used for) Provided by Noncapital Financing Activities	(381,982)
Cash Flows from Capital and Related Financing Activities	
Issuance of bonds and notes	2,874,261
Acquisition and construction of capital assets	(1,352,978)
Principal payments on bonds and notes	(1,947,363)
Interest expense	(72,820)
Net Cash Used for Capital and Related Financing Activities	(498,900)
Net Change in Cash and Cash Equivalents	352,080
Cash and Cash Equivalents	
Beginning of year	2,049,533
End of year	\$ 2,401,613
Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities	
Operating income (loss)	\$ 756,644
Depreciation expense	431,251
Changes in assets and liabilities:	
Receivables and deferred outflows of resources	(151,601)
Accounts payable and accrued expenses	196,668
Net Cash Provided by (Used for) Operating Activities	\$ 1,232,962

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

	Private Purpose Funds	Other Postemployment Benefits Trust Fund	Agency Fund
Assets			
Cash and cash equivalents	\$ 548,670	\$ 555	\$ -
Investments	-	610,800	-
Receivables	-	-	28,940
Total Assets	<u>548,670</u>	<u>611,355</u>	<u>28,940</u>
Liabilities			
Warrants payable	2,500	-	28,940
Other liabilities	-	-	-
Total Liabilities	<u>2,500</u>	<u>-</u>	<u>28,940</u>
Net Position			
Held in trust for private use benefit	546,170	-	-
Held in trust for other postemployment benefits	-	611,355	-
Total Net Position	<u>\$ 546,170</u>	<u>\$ 611,355</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016**

	Private Purpose Funds	Other Postemployment Benefits Trust Fund
Additions		
Contributions - employer	\$ -	\$ 150,000
Investment Income	1,381	10,258
Total Additions	1,381	160,258
Deductions		
Educational scholarships	5,000	-
Health and human services	10,000	-
Total Deductions	15,000	-
Change in Net Position	(13,619)	160,258
Net Position - Beginning of Year	559,789	451,097
Net Position - End of Year	\$ 546,170	\$ 611,355

See accompanying notes to basic financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2016

I. Summary of Significant Accounting Policies

The basic financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local governmental entities. The following is a summary of the more significant policies and practices used by the Town:

A. Reporting Entity

The Town is located in Barnstable County, approximately 90 miles southeast of Boston. The Town is bordered on its northern side by the Town of Eastham, on its eastern side by the Atlantic Ocean, by the Towns of Harwich and Chatham on its southern side and on its western side by Brewster and Cape Cod Bay. The Town was incorporated in 1797. The governing structure utilizes an open town meeting, with an elected five-member Board of Selectmen, and an appointed Town Administrator who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-5, water services, street maintenance, and parks and recreational facilities. The water services are funded entirely with user charges and are provided via connections to Town owned facilities.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

The Town is a member community of the Nauset Regional School District that provides educational services to four area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2016, the Town's share of the operating and debt service expenses was \$3,979,201. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 78 Eldredge Park Way, Orleans, MA 02653.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate

columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets and deferred outflow of resources, liabilities and deferred inflow of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element for all funds of that category or type, and
- 2) The total assets and deferred outflow of resources, liabilities and deferred inflow of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

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

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

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 a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are 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, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year and are material. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major governmental funds:

General Fund – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

Community Preservation Act Fund – is used to account for funds received in accordance with the Massachusetts Community Preservation Act. Funds are used to acquire or develop open space and recreational facilities, preservation of historic resources and affordable housing.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

The *Nonmajor Governmental Funds* consist of special revenue 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 this fund type:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than capital projects funds) that are restricted or committed to expenditures for specified purposes.

Permanent Funds – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary fund:

Water Enterprise Fund – is used to account for the operation of the water department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity for others that may not be used for governmental programs.

The government reports the following fiduciary funds:

Private-Purpose Funds – is used to account for trust arrangements under which principal and income benefit individuals, private organizations or other governments. This fund is used for educational scholarships and supporting in-need residents.

Other Postemployment Benefits Trust Fund – is used to accumulate funds for future payments of other postemployment benefits for retirees such as health and life insurance.

Agency Fund – is used to account for assets held in a purely custodial capacity. This fund is used for private public safety details. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments of the Town are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent semi-annually and are due on November 1 and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes. Property taxes levied are recorded as receivables in the fiscal year of the levy.

User fees consist of water fees. Water user fees are levied twice a year based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date.

Real estate taxes, water use fees and special assessments may be secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax and excise tax receivables are shown net of an allowance for uncollectible accounts comprised of those outstanding amounts greater than five years old. Departmental and other receivables primarily consist of ambulance receivables and are shown net of an allowance for uncollectible balances based on historical trends and specific account analysis.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, library materials and infrastructure (e.g. roads, water mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Net interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$20,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal

maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	25-40 years
Machinery and equipment	5-20 years
Vehicles	5-15 years
Library materials	5 years
Infrastructure	25-60 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

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 in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business –type activities are reported in the statement of activities as *transfers, net*.

Investment Income – Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds is voluntarily assigned to the general fund.

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick leave benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting the payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-term Obligations – Long-term debt is reported as a liability in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial 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 has two items that are reported on the government-wide statement of net position which relate to outflows from changes in the net pension liability and from deferred charges on refunding. The deferred pensions will be recognized in pension expense in future years as more fully described in Note III, subsection A. The deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial 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 has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, excise taxes, and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position – In the government-wide financial statements, 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 related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted* for the following:

Nonexpendable permanent funds represent the endowment portion of donor restricted trusts that support governmental programs.

Expendable permanent funds represent amounts held in trust whereby expenditures are subject to various trust agreements.

Federal and State grants represent assets that have restrictions placed on them from federal and state granting agencies.

Community preservation represents assets that are restricted by state law for the purposes of acquiring or developing open space and recreational facilities, historic resources and affordable housing associated with the Massachusetts Community Preservation Act.

Other purposes represent assets that are restricted by donors and state laws for specific governmental programs and uses.

Fund Equity – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – non-spendable, restricted, committed, assigned, and unassigned as described below:

Non-spendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact.

Restricted represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town has by ordinance authorized the Finance Director to assign fund balance. The Town Meeting 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 appropriated budget.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed. The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Fund – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund at June 30, 2016, is \$134,433 and is reported as unassigned fund balance in the General Fund.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Town Administrator and Finance Director as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The Town reports \$294,746 of encumbrances from normal purchasing activity in the General Fund as assigned and \$1,351,194 of encumbrances from Town Meeting votes in the General Fund as committed. There are no encumbrances reported in any other fund.

The following represents the Town fund balance categorizations in detail:

	General Fund	Community Preservation Act Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Non-Spendable:					
Perpetual permanent funds	\$ -	\$ -	\$ -	\$ 148,826	\$ 148,826
Restricted:					
General government	-	-	-	769,681	769,681
Public safety	-	-	-	1,227,621	1,227,621
Education	-	-	-	76,055	76,055
Public works	-	-	-	18,110	18,110
Health and human services	-	-	-	995,171	995,171
Culture and recreation	-	-	-	776,813	776,813
Debt service	361,224	-	-	-	361,224
Community preservation	-	1,521,445	-	-	1,521,445
Committed:					
General government	350,516	-	-	-	350,516
Public safety	28,500	-	-	-	28,500
Public works	937,860	-	-	-	937,860
Culture and recreation	34,318	-	-	-	34,318
Assigned:					
General government	51,716	-	-	-	51,716
Public safety	46,332	-	-	-	46,332
Education	114,547	-	-	-	114,547
Public works	17,522	-	-	-	17,522
Health and human services	700	-	-	-	700
Culture and recreation	63,929	-	-	-	63,929
Subsequent years' budget	956,427	-	-	-	956,427
Unassigned	3,290,755	-	(2,543,353)	(23,725)	723,677
	<u>\$ 6,254,346</u>	<u>\$ 1,521,445</u>	<u>\$ (2,543,353)</u>	<u>\$ 3,988,552</u>	<u>\$ 9,220,990</u>

E. Excess of Expenditures Over Appropriations and Deficits

The Town incurred deficits totaling \$2,543,353 in the Capital Projects Fund, which is reported as a major fund. This deficit will be funded through available revenues, grant funds or bond proceeds in future fiscal years.

F. Use of Estimates

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 fiscal year. Actual results could vary from estimates that were used.

II. Detailed Notes to All Funds

A. Deposits 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 balance sheet as "cash and cash equivalents". The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool (the Pool). In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (the "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 government's deposits may not be returned to it. The Town has developed formal policies to mitigate custodial credit risk with respect to deposits.

At year-end, the carrying amount of the Town's deposits was \$17,732,653 and the bank balance was \$17,555,917. Of the Town's bank balance, \$8,046,614 was covered by either federal depository insurance or by the depositors' insurance fund; \$4,926,542 was collateralized; and the remainder was uninsured and uncollateralized.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. The Town has developed formal policies to mitigate custodial credit risk with respect to investments. The Town's investments consist of \$304,084 invested in the MMDT, which are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form, and \$610,800 invested in the Pension Reserve Investment Trust (PRIT), a pooled investment managed by the Commonwealth of Massachusetts

Fair Value of Investments – The Town reports its investments at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.

- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- *Level 3* – Inputs reflect the Town’s best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2016:

	<u>6/30/16</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities:				
MMDT	\$ 304,085	\$ -	\$ 304,085	\$ -
PRIT	610,800	-	610,800	-
Total debt securities	<u>914,885</u>	<u>-</u>	<u>914,885</u>	<u>-</u>
 Total investments by fair value level	 <u>\$ 914,885</u>	 <u>\$ -</u>	 <u>\$ 914,885</u>	 <u>\$ -</u>

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Negotiable certificates of deposit are valued using pricing based on the securities’ relationship to benchmark quoted prices. The State Treasurer’s investment pool (MMDT) and (PRIT) are classified in Level 2 based on the composition and fair value of the underlying investments contained within these pools, which can be determined using inputs other than quoted prices that are observable either directly or indirectly.

Interest Rate Risk – The Town has formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

Concentration of Credit Risk – The Town places a limit on the amount that may be invested in any one issuer. During the fiscal year, the Town maintained 100% of its investments in the MMDT.

Credit Risk – The Town has adopted a formal policy related to credit risk. Investments in the MMDT and PRIT are unrated.

B. Receivables

Receivables as of year-end for the Town’s individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
Real estate and personal property taxes	\$ 692,240	\$ -	\$ 692,240
Tax liens	21,058	-	21,058
Tax deferral	160,536	-	160,536
Excise	131,179	-	131,179
Departmental and other	479,847	(249,812)	230,035
Intergovernmental	522,073	-	522,073
Total	<u>\$ 2,006,933</u>	<u>\$ (249,812)</u>	<u>\$ 1,757,121</u>

Receivables as of year-end for the Town’s proprietary fund are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
Water user charge	\$ 1,052,088	\$ -	\$ 1,052,088
Water other fees	6,574	-	6,574
Total	<u>\$ 1,058,662</u>	<u>\$ -</u>	<u>\$ 1,058,662</u>

Governmental funds report deferred inflows of resources in connections with receivables for revenues that are considered unavailable to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivable type:			
Real estate and personal property taxes	\$ 524,701	\$ 18,538	\$ 543,239
Tax liens	21,058	-	21,058
Tax deferral	160,536	-	160,536
Excise	131,179	-	131,179
Departmental and other	-	206,280	206,280
Total	<u>\$ 837,474</u>	<u>\$ 224,818</u>	<u>\$ 1,062,292</u>

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 40,209,898	\$ -	\$ -	\$ 40,209,898
Construction in process	-	2,870,704	-	2,870,704
Total capital assets not being depreciated	40,209,898	2,870,704	-	43,080,602
Capital assets being depreciated:				
Buildings	19,914,739	25,049	-	19,939,788
Improvements	1,469,900	-	-	1,469,900
Infrastructure	25,114,696	489,628	-	25,604,324
Machinery and equipment	1,849,788	188,263	-	2,038,051
Vehicles	4,170,902	425,593	(85,358)	4,511,137
Library materials	1,127,923	-	-	1,127,923
Total capital assets being depreciated	53,647,948	1,128,533	(85,358)	54,691,123
Less accumulated depreciation for:				
Buildings	(8,761,062)	(486,824)	-	(9,247,886)
Improvements	(345,580)	(49,943)	-	(395,523)
Infrastructure	(8,571,580)	(462,106)	-	(9,033,686)
Machinery and equipment	(1,047,028)	(125,680)	-	(1,172,708)
Vehicles	(2,527,155)	(364,251)	85,358	(2,806,048)
Library materials	(1,000,156)	(80,864)	-	(1,081,020)
Total accumulated depreciation	(22,252,561)	(1,569,668)	85,358	(23,736,871)
Total capital assets being depreciated, net	31,395,387	(441,135)	-	30,954,252
Governmental activities capital assets, net	\$ 71,605,285	\$ 2,429,569	\$ -	\$ 74,034,854
<i>Business-Type Activities - Water:</i>				
Capital assets not being depreciated:				
Land	\$ 1,026,491	\$ -	\$ -	\$ 1,026,491
Construction in process	-	1,352,978	-	1,352,978
Total capital assets not being depreciated	1,026,491	1,352,978	-	2,379,469
Capital assets being depreciated:				
Buildings	8,353,953	-	-	8,353,953
Improvements	399,568	-	-	399,568
Infrastructure	11,626,676	-	-	11,626,676
Machinery and equipment	283,588	-	-	283,588
Vehicles	199,289	-	-	199,289
Total capital assets being depreciated	20,863,074	-	-	20,863,074
Less accumulated depreciation for:				
Buildings	(3,090,193)	(168,339)	-	(3,258,532)
Improvements	(31,685)	(9,989)	-	(41,674)
Infrastructure	(5,259,291)	(207,435)	-	(5,466,726)
Machinery and equipment	(8,199)	(16,398)	-	(24,597)
Vehicles	(115,510)	(29,090)	-	(144,600)
Total accumulated depreciation	(8,504,878)	(431,251)	-	(8,936,129)
Total capital assets being depreciated, net	12,358,196	(431,251)	-	11,926,945
Business activities capital assets, net	\$ 13,384,687	\$ 921,727	\$ -	\$ 14,306,414

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 212,367
Public safety	433,505
Education	158,849
Public works	540,601
Health and human services	62,968
Culture and recreation	161,378
Total Governmental Activities	<u>\$ 1,569,668</u>

Business-Type Activities:

Water	\$ 431,251
Total Business-Type Activities	<u>\$ 431,251</u>

D. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In		
	General Fund	Capital Projects Funds	Total
General Fund	\$ -	\$ 928,000	\$ 928,000 (1)
Nonmajor Governmental Funds	1,213,256	-	1,213,256 (2)
Water Enterprise Fund	381,982	-	381,982 (3)
Total	<u>\$ 1,595,238</u>	<u>\$ 928,000</u>	<u>\$ 2,523,238</u>

- (1) Transfers to capital project funds for capital purposes.
- (2) Transfers to general fund to supplement operating budgets.
- (3) Transfers to general fund for indirect costs.

E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue (RANS) or tax anticipation notes (TANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount. Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively.

Temporary notes outstanding at June 30, 2016, are payable as follows:

Type	Interest Rate	Maturity Date	Beginning Balance	Additions	Retirements	Ending Balance
BAN	0.55%	matured	\$ 2,277,301	\$ -	\$ (2,277,301)	\$ -
BAN	0.50%	matured	912,709	-	(912,709)	-
BAN	0.54%	matured	108,000	-	(108,000)	-
BAN	0.79%	2/10/17	-	4,181,284	-	4,181,284
BAN	0.80%	2/10/17	-	112,810	-	112,810
Total Governmental Notes			3,298,010	4,294,094	(3,298,010)	4,294,094
BAN	0.55%	matured	\$ 40,000	\$ -	\$ (40,000)	\$ -
BAN	0.50%	matured	1,607,363	-	(1,607,363)	-
BAN	0.79%	2/10/17	-	1,312,123	-	1,312,123
BAN	0.80%	2/10/17	-	14,999	-	14,999
Total Business-Type Notes			1,647,363	1,327,122	(1,647,363)	1,327,122
Total Temporary Notes Payable			\$ 4,945,373	\$ 5,621,216	\$ (4,945,373)	\$ 5,621,216

Temporary notes were issued for governmental capital projects relating to elementary school doors and windows (\$600,000), storm water management (\$140,000), rock harbor bulkhead (\$10,000), septage (\$1,000,000), CWRMP Interim engineer and management (\$691,500), police design construction (\$400,000), OPD Station Design (\$662,553), demo hubler cottages (\$200,000), Town fuel depot design (\$50,000), Fuel depot construction (\$30,000), Nauset Beach Parking construction (\$10,000), Marine study of Nauset Estuary (\$49,936), DPW garage (\$187,295) and town center plan (\$150,000) and for enterprise fund capital projects for town road water main replacement (\$681,245) and well improvement (\$630,878).

F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” The Town may authorize debt in excess of that limit for specific purposes; such debt when issued is designated as being “outside the debt limit”.

The following reflects the current year activity in the long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i><u>Governmental Activities -</u></i>					
Bond and note indebtedness	\$ 15,230,000	\$ 2,623,849	\$ (1,830,000)	\$ 16,023,849	\$ 2,398,849
Unamortized bond premium	804,712	229,173	(121,450)	912,435	177,386
Post-closure landfill monitoring	714,000	-	(34,000)	680,000	34,000
Compensated absences	1,360,819	71,683	(35,554)	1,396,948	139,695
Other postemployment benefits	7,358,362	2,002,292	(986,065)	8,374,589	-
Net pension liability	16,762,313	3,863,942	(1,655,750)	18,970,505	-
Total Governmental Activities	<u>\$ 42,230,206</u>	<u>\$ 8,790,939</u>	<u>\$ (4,662,819)</u>	<u>\$ 46,358,326</u>	<u>\$ 2,749,930</u>
<i><u>Business-type Activities: Water -</u></i>					
Bond and note indebtedness	\$ 2,270,000	\$ 1,422,863	\$ (300,000)	\$ 3,392,863	\$ 517,863
Unamortized bond premium	-	124,276	-	124,276	28,907
Compensated absences	122,157	4,782	-	126,939	12,694
Other postemployment benefits	301,574	77,796	(38,312)	341,058	-
Net pension liability	1,039,634	239,649	(102,693)	1,176,590	-
Total Business-type Activities	<u>\$ 3,733,365</u>	<u>\$ 1,869,366</u>	<u>\$ (338,312)</u>	<u>\$ 5,161,726</u>	<u>\$ 559,464</u>

The governmental activities liabilities will be liquidated by the General Fund. The business-type liabilities will be liquidated by the Water Enterprise Fund.

The following is a summary of outstanding long-term debt obligations as of June 30, 2016:

Description of Issue	Maturing Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i><u>Governmental Activities -</u></i>						
General Obligation Bonds	2041	1.5% - 5.5%	\$ 5,520,000	\$ 2,623,849	\$ (750,000)	\$ 7,393,849
General Obligation Refunding Bonds	2022	2.0% - 5.0%	9,295,000	-	(1,015,000)	8,280,000
Bond Anticipation Notes	2016	0.50%	360,000	-	(60,000)	300,000
MWPAT Note	2025	0.00%	55,000	-	(5,000)	50,000
Total Governmental Activities			15,230,000	2,623,849	(1,830,000)	16,023,849
Add: Unamortized bond premium			804,712	229,173	(121,450)	912,435
Total Governmental Activities, net			<u>\$ 16,034,712</u>	<u>\$ 2,853,022</u>	<u>\$ (1,951,450)</u>	<u>\$ 16,936,284</u>
<i><u>Business-type Activities: Water -</u></i>						
General Obligation Bonds	2025	1.50% - 4.0%	\$ 290,000	\$ 1,422,863	\$ (45,000)	\$ 1,667,863
General Obligation Refunding Bonds	2026	2.0% - 3.0%	1,980,000	-	(255,000)	1,725,000
Total Business-type Activities			2,270,000	1,422,863	(300,000)	3,392,863
Add: Unamortized bond premium			-	124,276	-	124,276
Total Business Activities, net			<u>\$ 2,270,000</u>	<u>\$ 1,547,139</u>	<u>\$ (300,000)</u>	<u>\$ 3,517,139</u>

Payments on general long-term debt bonds and notes due in future years consist of the following:

<i>Governmental Activities</i>			
Year Ending	Principal	Interest	Total
June 30			
2017	\$ 2,398,849	\$ 555,332	\$ 2,954,181
2018	1,955,000	503,530	2,458,530
2019	1,760,000	443,305	2,203,305
2020	1,570,000	385,955	1,955,955
2021	1,300,000	338,825	1,638,825
2022-2026	4,790,000	1,054,425	5,844,425
2027-2031	850,000	442,650	1,292,650
2032-2036	700,000	270,900	970,900
2037-2041	700,000	103,950	803,950
	-	-	-
Total	\$ 16,023,849	\$ 4,098,872	\$ 20,122,721

<i>Business-type Activities: Water</i>			
Year Ending	Principal	Interest	Total
June 30			
2017	\$ 517,863	\$ 105,810	\$ 623,673
2018	500,000	92,628	592,628
2019	495,000	77,590	572,590
2020	490,000	60,640	550,640
2021	475,000	43,625	518,625
2022-2026	915,000	42,950	957,950
Total	\$ 3,392,863	\$ 423,243	\$ 3,816,106

Prior Year Refunding – In prior years, the Town defeased general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government’s financial statements. At June 30, 2016, \$3,625,000 of defeased bonds remains outstanding.

Authorized and Unissued Debt – At June 30, 2016, the Town had authorized and unissued debt as follows:

<u>Project</u>	<u>Amount</u>
Street Sweeper	\$ 5,706
Storm Water Management	270,000
School windows and doors	408,502
DPW garage	1,705
Main Street interesction	482,000
Ambulance	270,000
Police station	11,065,297
Highway front end loader	19,731
Water main	82,877
Wells	14,999
Nauset Estuary	336,964
School boiler	10,859
Piers, Docks, and Ramps	28,073
Water Tank #2	10,136
Water Filter Replacement	31,676
Rock Harbor	3,577,970
Water resource management	65,000
Fuel depot construction	466,000
DPW Facility design	900,000
Nauset Beach Parking	375,000
OES HVAC Design	40,000
Skaket Build Feasibility Study	35,000
Beach Rd Water Main Replace	156,000
Total Authorized and Unissued	<u><u>\$ 18,653,495</u></u>

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Barnstable County Retirement System (BCRS), a cost-sharing multiple-employer defined benefit pension plan established under MGL Chapter 32 and is administered by the Barnstable County Retirement Board (BCRB). Standalone financial statements for the year ended December 31, 2015 were issued and may be obtained by writing to the Barnstable County Retirement System, 750 Attucks Lane, Hyannis, Massachusetts 02601.

Membership – Membership in the Retirement System as of January 1, 2014, the date of the latest actuarial valuation, was as follows:

Retirees and beneficiaries currently receiving benefits	3,035
Active plan members	4,718
Inactive plan members	<u>613</u>
Total	<u>8,366</u>

Benefit Terms – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Teachers and certain administrative personnel employed by the Town’s school department participate in a separate pension plan administered by the Massachusetts Teachers’ Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to system. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year or five-year average annual rate of regular compensation, depending on the participant’s date of hire. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation and job classification.

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years’ creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the Retirement System's benefit terms in 2015.

Contributions Requirements – The Town has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$1,727,956 to the Retirement System in fiscal year 2016, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 19.5% in fiscal year 2016.

Net Pension Liability – At June 30, 2016, the Town reported a liability of \$20,147,095 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2015. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 3.20% at December 31, 2015, which was consistent with the proportion measured at January 1, 2014.

Pension Expense – The Town recognized \$2,276,320 in pension expense in the statement of activities in fiscal year 2016.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual Experience	\$ —	\$ —
Changes of assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	1,598,789	—
Changes in proportion and differences between Town contributions and proportionate share of contributions	228,482	—
Town contributions subsequent to the measurement date	—	—
Total	<u>\$ 1,827,271</u>	<u>\$ —</u>

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Town’s pension expense as follows:

Year ended June 30,	
2017	\$ 447,327
2018	447,327
2019	437,327
2020	439,593
2021	<u>45,697</u>
	<u>\$ 1,827,271</u>

Actuarial Valuation – The measurement of the Retirement System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumptions used in the January 1, 2014 actuarial valuation included:

Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Payments increase at 4.0%, except for 2010 Early Retirement Incentive, which is a level payment
Remaining amortization period:	22 years from July 1, 2014 for 2002 and 2003 Early retirement Incentives, retiree sheriffs liability, and remaining unfunded liability, and 8 years from July 1, 2014 for 2010 Early Retirement Incentive
Asset valuation method:	Sum of actuarial value at beginning of the year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of the market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value.

Investment rate of return:	7.75%
Projected salary increases:	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2, and 4.75% for Group 4
Inflation rate:	4%
Cost of living adjustments:	3% of \$15,000
Mortality rates:	Pre-retirement rates reflect the RP-2000 Employee Mortality Table projected generationally with Scale AA from 2010. The post-retirement rates reflect the RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale AA from 2010
Disabled life mortality:	RP-2000 Healthy Annuitant Mortality Table set forward three years for males only projected generationally with Scale AA from 2010

The investment rate of return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns and professional judgment. The market expectations analysis used a building-block approach, which included expected returns by asset class and the target asset allocation. The target allocation and best estimates of arithmetic real returns for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	20.0%	6.60%
International developed markets equity	16.0%	7.10%
International emerging markets equity	7.0%	9.40%
Core fixed income	13.0%	2.20%
High-yield fixed income	10.0%	4.70%
Real estate	10.0%	4.40%
Commodities	4.0%	4.40%
Hedge funds	10.0%	3.90%
Private equity	10.0%	11.70%

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

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Discount <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Town's proportionate share of the net pension liability	\$ 25,549,512	\$ 20,147,095	\$ 15,562,124

B. Massachusetts Teachers' Retirement System

Teachers and certain administrative employees of the Town's school department participate in the Massachusetts Teachers' Retirement System ("MTRS"), a cost-sharing multiple employer defined benefit pension plan. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Like the Retirement System, MTRS was established under Chapter 32 of Massachusetts General Laws. The Commonwealth's legislature has the authority to amend or modify the MTRS's funding policies.

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

For the year ended June 30, 2016, the Commonwealth contributed \$328,045 to the MTRS on behalf of the Town. The Town's proportionate share of the collective MTRS net pension liability at this reporting date was 0.032101%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the Town as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the Town's proportionate share of the following:

	Commonwealth <u>Portion</u>	Paid (or assumed) On Behalf <u>of the Town</u>	Town <u>Portion</u>
Net pension liability	\$ 6,577,293	\$ (6,577,293)	\$ —
Pension expense	533,477	(533,477)	—

The Town has recognized intergovernmental revenue and pension expense of \$533,477 associated with this arrangement.

C. 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 carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Town participates in a health insurance risk pool administered by the Cape Cod Municipal Health Group (the Group). The Group offers a variety of premium based health and dental plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. In the event the Group is terminated, the Town would be obligated to pay its proportionate share of a deficit, should one exist.

D. Other Postemployment Benefits (OPEB)

Plan Description – The Town administers a single-employer defined benefit healthcare plan (the Plan). The Plan provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s self-funded insurance program described previously. The Plan does not issue a stand – alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 143 active employees and 132 retired employees for a total of 275.

Funding Policy – The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 25% of the calculated contributions and the remainder of the cost is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual OPEB cost is calculated based on the annual required contribution “ARC” of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement number 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town’s OPEB obligation:

Annual required contribution (ARC)	\$ 1,987,777
Interest on net OPEB obligation	402,147
Adjustment to ARC	<u>(309,836)</u>
Annual OPEB cost	2,080,088
Contributions made	<u>(1,024,377)</u>
Increase in net OPEB obligation	1,055,711
Net OPEB obligation at beginning of year	<u>7,659,936</u>
Net OPEB obligation at end of year	<u><u>\$ 8,715,647</u></u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2016	\$ 2,080,088*	49.2%	\$ 8,715,647
June 30, 2015	\$ 1,965,061	47.8%	\$ 7,659,936
June 30, 2014	\$ 1,916,024	38.2%	\$ 6,633,307

* Reflected in the Statement of Activities as follows:

The AOPEBC at June 30, 2016 was charged to the following functional programs: General Government \$220,905; Public Safety \$743,423; Education \$713,262; Public Works \$93,812; Health and Human Services \$105,460; Culture and Recreation \$125,429; and Water \$77,797.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2016 for the most recent actuarial valuation performed as of June 30, 2014 was as follows:

Actuarial value of plan assets	\$	-
Actuarial accrued liability (AAL)	\$	23,526,419
Unfunded actuarial accrued liability (UAAL)	\$	23,526,419
Funded ratio (actuarial value of plan assets / AAL)		0.00%
Covered payroll (annual payroll of active, plan employees)		N/A
UAAL as a percentage of covered payroll		N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Methods and Assumptions – 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 the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest valuation are as follows:

Valuation date	June 30, 2014
Actuarial cost method	Projected unit credit
Amortization method	Amortization payments increasing at 4.0%
Remaining amortization period	30 years open
Interest discount rate	5.25%
Inflation rate	4.0%
Healthcare/Medical cost trend rate	Under 65: 10% decreasing by 2% for 1 year and 0.5% for 6 years to an ultimate rate of 5.0% per year Over 65: 10% decreasing by 0.5% for 10 years to an ultimate level of 5.0% per year

E. Commitments and Contingencies – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2016, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2016.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

F. Landfill Closure and Post-Closure Care Costs

The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$680,000 has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Implementation of New GASB Pronouncements

Current Year Implementations –

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addressed accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 was to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement established requirements for defined benefit pensions that are not within the scope of Statement 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it established requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement were effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2106 (fiscal year 2017). The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 was to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted principles, or GAAP. This Statement reduced the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

In December 2015, the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB 79 established criteria for which an external investment pool may qualify to measure its investment value at amortized cost versus fair value. The provisions of this

Statement became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

Future Implementations –

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 are applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state or local governmental employer. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. This Statement is not expected to have a material effect on the Town's financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2016 (fiscal year 2018) and should be applied retroactively. The Town is currently evaluating whether adoption will have a

material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB 73 was to address issues raised with respect to previously issued statements related to pensions. Specifically, the Statement addressed issues regarding (i) the presentation of payroll-related measures in required supplementary information, (ii) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting and (iii) the classification of payments made by employers to satisfy employee (plan member) contributions requirements. The requirements for this Statement are effective for reporting periods beginning after June 15, 2016 (fiscal year 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017; earlier application is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

TOWN OF ORLEANS, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2016

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(dollar amounts are in thousands)

	Year Ended December 31,	
	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset)	3.200%	3.153%
Town's proportionate share of the net pension liability (asset)	\$ 20,147	\$ 17,802
Town's covered-employee payroll	\$ 8,873	\$ 8,271
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	227.1%	215.2%
Plan fiduciary net position as a percentage of the total pension liability	58.10%	60.43%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN
(dollar amounts are in thousands)

	Year Ended December 31,	
	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,728	\$ 1,642
Contributions in relation to the actuarially determined contribution	<u>1,728</u>	<u>1,642</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 8,873	\$ 8,271
Contributions as a percentage of covered-employee payroll	19.5%	19.9%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.

**SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHER'S RETIREMENT SYSTEM**
(dollar amounts are in thousands)

	Year Ended December 31,	
	2015	2014
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%
Town's proportion of the collective net pension liability (asset)	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 20,490	\$ 15,896
Commonwealth's actuarially determined contribution	\$ 1,022	\$ 937

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

TOWN OF ORLEANS, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2016**

SCHEDULE OF FUNDING PROGRESS

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
6/30/2014	\$ -	\$ 23,526,419	\$ 23,526,419	0.0%	N/A	N/A
6/30/2012	-	21,680,253	21,680,253	0.0%	N/A	N/A
6/30/2010	-	28,200,889	28,200,889	0.0%	N/A	N/A
6/30/2008	-	27,240,351	27,240,351	0.0%	N/A	N/A

SCHEDULE OF CONTRIBUTION FUNDING

Other Postemployment Benefits

Year Ended June 30,	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2016	\$ 2,080,088	\$ 1,024,377	49.2%
2015	1,965,061	938,432	47.8%
2014	1,916,024	732,779	38.2%
2013	1,810,540	683,216	37.7%
2012	1,983,745	916,284	46.2%

See accompanying independent auditors' report.

TOWN OF ORLEANS, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Revenues						
Real Estate and Personal Property	\$ 23,881,586	\$ 23,881,586	\$ 23,843,641	\$ -	\$ 23,843,641	\$ (37,945)
Intergovernmental	506,589	506,589	510,403	-	510,403	3,814
Motor vehicle and other excises	1,630,876	1,630,876	1,709,312	-	1,709,312	78,436
Licenses and Permits	906,000	906,000	903,676	-	903,676	(2,324)
Departmental and other revenue	1,462,031	1,462,031	1,894,227	-	1,894,227	432,196
Penalties and Interest	109,000	109,000	105,309	-	105,309	(3,691)
Fines and forfeitures	40,000	40,000	86,967	-	86,967	46,967
Investment Income	20,000	20,000	16,463	-	16,463	(3,537)
Total Revenues	<u>28,556,082</u>	<u>28,556,082</u>	<u>29,069,998</u>	<u>-</u>	<u>29,069,998</u>	<u>513,916</u>
Expenditures						
General government	3,305,194	3,282,746	2,767,485	402,232	3,169,717	113,029
Public safety	6,065,152	6,290,961	5,976,711	74,832	6,051,543	239,418
Education	8,043,344	8,043,486	7,923,654	114,547	8,038,201	5,285
Public works	2,590,941	2,590,941	1,600,878	955,382	2,556,260	34,681
Health and human services	1,058,166	1,060,166	1,048,360	700	1,049,060	11,106
Culture and recreation	2,254,417	2,254,533	2,064,876	98,247	2,163,123	91,410
Fringe and pension benefits	4,634,121	4,633,980	4,595,418	-	4,595,418	38,562
State and county tax assessments	558,057	558,057	561,378	-	561,378	(3,321)
Debt service	2,312,230	2,312,230	2,218,923	-	2,218,923	93,307
Total Expenditures	<u>30,821,622</u>	<u>31,027,100</u>	<u>28,757,683</u>	<u>\$ 1,645,940</u>	<u>30,403,623</u>	<u>623,477</u>
Other Financing Sources (Uses)						
Transfers in	1,874,945	2,069,945	2,069,945		2,069,945	-
Transfers out	(1,287,500)	(1,287,500)	(1,287,500)		(1,287,500)	-
Total Other Financing Sources (Uses)	<u>587,445</u>	<u>782,445</u>	<u>782,445</u>		<u>782,445</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	<u>(1,678,095)</u>	<u>(1,688,573)</u>	<u>\$ 1,094,760</u>		<u>\$ (551,180)</u>	<u>\$ 1,137,393</u>
Other Budgetary Items						
Prior year encumbrances	1,137,845	1,137,845				
Free cash	627,000	637,478				
Snow and Ice deficit	(172,821)	(172,821)				
Other	86,071	86,071				
Total Other Budgetary Items	<u>1,678,095</u>	<u>1,688,573</u>				
Net Budget	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditors' report.
 See notes to the required supplementary information of this schedule.

TOWN OF ORLEANS, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town Meeting members at the Town’s annual meeting in May. Expenditures may not legally exceed appropriations at the department level, or in the categories of personnel, non-personnel expenses and capital outlay. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within each of the three budget categories. The Town Meeting, however, must approve any transfer of unencumbered appropriation balances between departments or categories. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance. The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2016 Town Meeting approved approximately \$205,478 in additional departmental appropriations from the original approved budget. The Finance Director has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2016, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis:			\$ 29,069,998
Stabilization investment income	\$ -	\$ 336	336
Transfer recognition	(229,173)	-	(229,173)
MTRS on-behalf payments	533,477	-	533,477
Revenues on a GAAP basis	<u>\$ 304,304</u>	<u>\$ 336</u>	<u>\$ 29,374,638</u>
Expenditures on a budgetary basis:			\$ 28,757,683
MTRS on-behalf payments	\$ 533,477	\$ -	533,477
Contribution to OPEB	150,000	-	150,000
GASB 68 impact on pension	(100,913)	-	(100,913)
Water debt service reported in water fund	-	(372,820)	(372,820)
Expenditures on a GAAP basis	<u>\$ 582,564</u>	<u>\$ (372,820)</u>	<u>\$ 28,967,427</u>
Net transfers on a budgetary basis:			\$ 782,445
GASB 68 impact on pension	\$ (100,913)	\$ -	(100,913)
Transfer difference related to nonmajor funds	-	(3,447)	(3,447)
Transfers not budgeted	-	96,758	96,758
Contribution to OPEB	-	150,000	150,000
Transfer difference related to water indirect costs	(9,061)	-	(9,061)
Transfers related to water debt activity	-	(248,544)	(248,544)
Net transfers on a GAAP basis	<u>\$ (109,974)</u>	<u>\$ (5,233)</u>	<u>\$ 667,238</u>



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

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Orleans, Massachusetts (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 19, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 19, 2016