

***TOWN OF ORLEANS, MASSACHUSETTS***

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

***YEAR ENDED JUNE 30, 2017***

TOWN OF ORLEANS, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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## Independent Auditor's Report

To the Honorable Board of Selectmen  
Town of Orleans, Massachusetts

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Orleans, Massachusetts, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Orleans, Massachusetts, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2018, on our consideration of the Town of Orleans, Massachusetts' internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Orleans, Massachusetts' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Powers + Johnson, LLC". The signature is written in a cursive, flowing style.

January 16, 2018

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

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

As management of the Town of Orleans, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2017. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

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

This discussion and analysis is intended to serve as an introduction to the Town of Orleans's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the Town as a whole. The fund financial statements focus on the individual components of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund based) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the financial statements. The report also contains other required 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 finances, in a manner similar to private-sector business.

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

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

The government-wide financial statements report functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities include general government, public safety, education, public works, water, community development, human services, culture and recreation, and interest.

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

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

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

The Town of Orleans adopts an annual appropriated budget for its general fund and water special revenue fund. Budgetary comparison schedules have been provided for the general fund and the water fund to demonstrate compliance with these budgets.

The Town's general fund, community preservation fund, water fund, and the capital project fund are considered major funds for presentation purposes. These major funds are presented in separate columns in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are aggregated and shown as nonmajor governmental funds.

***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.

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

## Financial Highlights

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town of Orleans's governmental assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources for governmental activities by \$52.9 million at the close of the most recent year. Key components of the Town's activities are presented below.

### Governmental Activities

	2017	2016 (As Restated)
<b>Assets:</b>		
Current assets.....	\$ 28,934,600	\$ 19,388,411
Capital assets.....	100,377,067	88,341,268
<b>Total assets.....</b>	<b>129,311,667</b>	<b>107,729,679</b>
<b>Total deferred outflows of resources.....</b>	<b>3,150,982</b>	<b>2,260,912</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	3,515,089	1,610,759
Noncurrent liabilities (excluding debt).....	33,423,266	30,880,240
Current debt.....	18,830,905	8,744,221
Noncurrent debt.....	23,291,980	17,330,418
<b>Total liabilities.....</b>	<b>79,061,240</b>	<b>58,565,638</b>
<b>Total deferred inflows of resources.....</b>	<b>545,696</b>	<b>-</b>
<b>Net Position:</b>		
Net investment in capital assets.....	68,206,895	64,498,741
Restricted.....	3,699,437	5,533,722
Unrestricted.....	(19,050,619)	(18,607,510)
<b>Total net position.....</b>	<b>\$ 52,855,713</b>	<b>\$ 51,424,953</b>

Net position of \$68.2 million reflects the investment in capital assets (e.g., land, infrastructure, buildings and improvements, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental net position amounting to \$3.7 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position resulted in a deficit of \$19.1 million as a result of recognizing the Town's OPEB and net pension liabilities of \$9.9 million and \$22.1 million, respectively.

The 2016 amounts have been restated to reflect previously reported Business-Type Activities as Governmental Activities. In 2017, management determined that the Water fund, previously reported as a Business-Type Activity, should more appropriately be reported as a Governmental fund because it is not management's policy that all costs, including capital costs, i.e. depreciation and debt service, be recovered through fees and charges.

	<u>2017</u>	<u>2016</u> <u>(As Restated)</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 6,971,619	\$ 6,326,342
Operating grants and contributions.....	1,637,483	1,636,104
Capital grants and contributions.....	1,748,397	632,604
<b>General Revenues:</b>		
Real estate and personal property taxes.....	24,873,462	24,731,281
Tax liens.....	59,104	-
Motor vehicle and other excise taxes.....	1,837,737	1,776,060
Other.....	183,878	107,472
Nonrestricted grants and contributions.....	99,340	108,886
Unrestricted investment income.....	61,307	27,639
<b>Total revenues.....</b>	<b><u>37,472,327</u></b>	<b><u>35,346,388</u></b>
<b>Expenses:</b>		
General Government.....	4,026,421	3,536,881
Public Safety.....	10,202,569	9,447,939
Education.....	10,791,918	9,916,709
Public Works.....	2,541,929	2,436,189
Water.....	1,617,200	1,627,860
Community Development.....	182,486	171,833
Human Services.....	1,856,627	1,730,183
Culture and recreation.....	3,840,603	3,541,084
Interest.....	981,814	562,258
<b>Total expenses.....</b>	<b><u>36,041,567</u></b>	<b><u>32,970,936</u></b>
<b>Change in net position.....</b>	<b>1,430,760</b>	<b>2,375,452</b>
<b>Net position - beginning.....</b>	<b><u>51,424,953</u></b>	<b><u>49,049,501</u></b>
<b>Net position - ending.....</b>	<b><u>\$ 52,855,713</u></b>	<b><u>\$ 51,424,953</u></b>

The governmental activities net position increased by \$1.4 million during the current year compared to an increase in net position of \$2.4 million in the prior year. Total revenues and total expenses both increased by approximately 6% in 2017.

Revenues increased in virtually all categories with charges for services and capital grants and contributions increasing the most. Charges for services increased from beach activities, building permits, and ambulance fees. Capital grants and contributions increased from capital grants for land acquisition, school construction, and various highway projects.

Total governmental expenses increased by \$3.1 million. Approximately \$1.5 million of this increase relates to allocated pension expense, \$1.1 million relates to allocated OPEB expense and the difference of approximately \$500,000 relates to an increase in interest expense.

## ***Financial Analysis of the Government's Funds***

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

***Governmental funds.*** The focus of the Town'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 year.

As of the end of the current year governmental funds reported combined ending fund balances of \$8.8 million, a decrease of \$1.4 million from the prior year. The decrease relates mainly to the planned use of reserves in the general fund, and to timing difference of when revenues and expenditures are recorded in the special revenue and capital project funds.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$2.8 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 8.7% of total general fund expenditures, while total fund balance represents 17.6% of that same amount.

The general fund balance decreased by \$512,000 for the year ended June 30, 2017, as a result of the planned use reserves.

The Community Preservation fund had an ending fund balance as of June 30, 2017 of \$1.2 million, which decreased \$326,000 from the prior year. The decrease relates mainly to the timing of when expenditures occur.

The Water fund had an ending fund balance as of June 30, 2017 of \$2.7 million, which is an increase of \$608,000 from 2016. The increase relates to actual revenues exceeding budgeted expenditures and transfers, in anticipation of future needs.

The Capital Projects fund ended the current year with a deficit fund balance of \$5.4 million relating to the funding of expenditures with bond anticipation notes that do not provide a funding source for fund-based financial reporting. The fund deficit will be eliminated once the bonds are permanently financed.

### ***Budgetary Highlights***

#### *General Fund*

Actual general fund revenues exceeded budgeted amounts by approximately \$845,000 mainly due to increased collections of real estate and personal property taxes, motor vehicle taxes, and department and other revenues.

Actual expenditures, including carryovers, were less than the budgeted amounts by approximately \$986,000 due to budgetary savings in virtually all categories. The Town has carried over \$822,000 in appropriations to 2018.

#### *Water Fund*

Actual revenues exceeded budgeted amounts by approximately \$620,000 and actual expenditures, including carryovers were less than budgeted amounts by \$13,000.

## ***Capital Assets and Debt Administration***

**Capital Assets.** The Town's investment in capital assets as of June 30, 2017, amounted to \$100.4 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, infrastructure, machinery and equipment, vehicles, and library materials.

During 2017, the Town had capital asset acquisitions of \$14.1 million. This includes \$771,000 for land, \$11.7 million for Construction in Progress (School projects, Rock Harbor bulkhead, boat ramp, new police station, and various other projects), \$931,000 for infrastructure, \$236,000 for Machinery and equipment, and \$437,000 for Vehicles.

**Debt Administration.** The Town has a "AAA" bond rating from Standard and Poor's Ratings Services and continues to maintain strong market access for both note and bond sales. At the end of the year the Town had total bonded debt outstanding of \$25.9 million. The entire amount is classified as general obligation debt and is backed by the full faith and credit of the Town. During the year, the Town issued \$9.4 million of new long-term debt and made principal payments on older issues totaling \$2.9 million.

The Town has approximately \$15 million of bond anticipation notes (BANs) outstanding as of June 30, 2017. The BANs were primarily issued to temporarily finance on-going projects relating to the new police station, the Rock Harbor Bulkhead, and various Water projects.

Please refer to the notes to the basic financial statements for further discussion of the major capital and debt activity.

## ***Requests for Information***

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

# ***Basic Financial Statements***

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**STATEMENT OF NET POSITION**

JUNE 30, 2017

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$	25,884,879
Receivables, net of allowance for uncollectibles:		
Real estate and personal property taxes.....		601,553
Tax liens.....		76,549
Motor vehicle excise taxes.....		82,875
User fees.....		981,633
Departmental and other.....		302,355
Intergovernmental.....		972,172
Tax foreclosures.....		32,584
NONCURRENT:		
Capital assets, net of accumulated depreciation:		
Nondepreciable.....		57,371,608
Depreciable.....		43,005,459
TOTAL ASSETS.....		<u>129,311,667</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources relating to pensions.....		2,760,705
Deferred loss on refunding.....		390,277
TOTAL DEFERRED OUTFLOWS.....		<u>3,150,982</u>
<b>LIABILITIES</b>		
CURRENT:		
Warrants payable.....		1,350,695
Accrued payroll.....		994,664
Accrued interest.....		432,633
Payroll withholdings.....		15,097
Landfill closure.....		34,000
Compensated absences.....		688,000
Bonds and notes payable.....		18,830,905
NONCURRENT:		
Landfill closure.....		612,000
Compensated absences.....		849,297
Bonds payable.....		23,291,980
Other postemployment benefits.....		9,863,117
Net pension liability.....		22,098,852
TOTAL LIABILITIES.....		<u>79,061,240</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources relating to pensions.....		545,696
<b>NET POSITION</b>		
Net investment in capital assets.....		68,206,895
Restricted for:		
Permanent funds:		
Expendable.....		1,311,271
Nonexpendable.....		369,122
Gifts and grants.....		760,278
Community preservation.....		1,258,766
Unrestricted.....		<u>(19,050,619)</u>
TOTAL NET POSITION.....	\$	<u>52,855,713</u>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 4,026,421	\$ 464,705	\$ 181,846	\$ 200,000	\$ (3,179,870)
Public safety.....	10,202,569	1,573,303	69,433	-	(8,559,833)
Education.....	10,791,918	41,002	1,336,559	364,891	(9,049,466)
Public works.....	2,541,929	520,903	-	995,887	(1,025,139)
Water.....	1,617,200	2,619,570	-	-	1,002,370
Community development.....	182,486	-	-	187,619	5,133
Human services.....	1,856,627	221,460	35,951	-	(1,599,216)
Culture and recreation.....	3,840,603	1,530,676	13,694	-	(2,296,233)
Interest.....	981,814	-	-	-	(981,814)
Total Governmental Activities.....	<u>\$ 36,041,567</u>	<u>\$ 6,971,619</u>	<u>\$ 1,637,483</u>	<u>\$ 1,748,397</u>	<u>\$ (25,684,068)</u>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>Changes in net position:</b>	
Net (expense) revenue from previous page.....	\$ <b><u>(25,684,068)</u></b>
<i>General revenues:</i>	
Real estate and personal property taxes, net of tax refunds payable.....	24,106,214
Tax liens.....	59,104
Motor vehicle excise taxes.....	1,250,366
Hotel, meals and other excise taxes.....	587,371
Community preservation tax.....	767,248
Penalties and interest on taxes.....	141,645
Payments in lieu of taxes.....	4,596
Grants and contributions not restricted to specific programs.....	99,340
Unrestricted investment income.....	61,307
Miscellaneous.....	<u>37,637</u>
Total general revenues and transfers.....	<u>27,114,828</u>
Change in net position.....	1,430,760
<i>Net Position:</i>	
Beginning of year, as restated.....	<u>51,424,953</u>
End of year.....	<u>\$ <u>52,855,713</u></u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2017

<b>ASSETS</b>	General	Community Preservation Fund	Water Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 7,117,327	\$ 1,200,830	\$ 2,752,743	\$ 10,408,940	\$ 4,405,039	\$ 25,884,879
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	601,553	-	-	-	-	601,553
Tax liens.....	76,549	-	-	-	-	76,549
Motor vehicle excise taxes.....	82,875	-	-	-	-	82,875
User fees.....	-	-	981,633	-	-	981,633
Departmental and other.....	21,011	63,111	-	-	218,233	302,355
Intergovernmental.....	-	-	-	20,784	951,388	972,172
Tax foreclosures.....	32,584	-	-	-	-	32,584
Due from other funds.....	-	-	-	-	241,064	241,064
<b>TOTAL ASSETS.....</b>	<b>\$ 7,931,899</b>	<b>\$ 1,263,941</b>	<b>\$ 3,734,376</b>	<b>\$ 10,429,724</b>	<b>\$ 5,815,724</b>	<b>\$ 29,175,664</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Warrants payable.....	\$ 396,126	\$ 5,175	\$ 60,179	\$ 846,504	\$ 42,711	\$ 1,350,695
Accrued payroll.....	982,064	-	10,657	-	1,943	994,664
Accrued interest on short-term debt.....	112,000	-	-	-	-	112,000
Payroll withholdings.....	15,097	-	-	-	-	15,097
Due to other funds.....	-	-	-	-	241,064	241,064
Notes payable.....	-	-	-	14,979,840	-	14,979,840
<b>TOTAL LIABILITIES.....</b>	<b>1,505,287</b>	<b>5,175</b>	<b>70,836</b>	<b>15,826,344</b>	<b>285,718</b>	<b>17,693,360</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
Unavailable revenue.....	684,571	63,112	981,633	20,784	928,157	2,678,257
<b>FUND BALANCES:</b>						
Nonspendable.....	-	-	-	-	369,122	369,122
Restricted.....	190,891	1,195,654	2,681,907	-	4,232,727	8,301,179
Committed.....	533,229	-	-	-	-	533,229
Assigned.....	2,178,241	-	-	-	-	2,178,241
Unassigned.....	2,839,680	-	-	(5,417,404)	-	(2,577,724)
<b>TOTAL FUND BALANCES.....</b>	<b>5,742,041</b>	<b>1,195,654</b>	<b>2,681,907</b>	<b>(5,417,404)</b>	<b>4,601,849</b>	<b>8,804,047</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....</b>	<b>\$ 7,931,899</b>	<b>\$ 1,263,941</b>	<b>\$ 3,734,376</b>	<b>\$ 10,429,724</b>	<b>\$ 5,815,724</b>	<b>\$ 29,175,664</b>

See notes to basic financial statements.

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

JUNE 30, 2017

Total governmental fund balances.....		\$ 8,804,047
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		100,377,067
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		2,678,257
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		2,215,009
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(320,633)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(27,143,045)	
Landfill liability.....	(646,000)	
Compensated absences.....	(1,537,297)	
Other postemployment benefits.....	(9,863,117)	
Net pension liability.....	<u>(22,098,852)</u>	
Net effect of reporting long-term liabilities.....		<u>(61,288,311)</u>
In the statement of activities, deferred losses are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued.....		<u>390,277</u>
Net position of governmental activities.....		<u>\$ 52,855,713</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2017

	General	Community Preservation Fund	Water Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Real estate and personal property taxes, net of tax refunds.....	\$ 24,230,291	\$ -	\$ -	\$ -	\$ -	\$ 24,230,291
Tax liens.....	3,613	-	-	-	-	3,613
Motor vehicle excise taxes.....	1,298,671	-	-	-	-	1,298,671
Hotel, meals and other excise taxes.....	587,371	-	-	-	-	587,371
Charges for services.....	2,091,610	-	-	-	-	2,091,610
Water charges.....	-	-	2,672,291	-	-	2,672,291
Penalties and interest on taxes.....	138,687	2,958	24,325	-	-	165,970
Payments in lieu of taxes.....	4,596	-	-	-	-	4,596
Intergovernmental.....	1,384,620	187,619	-	364,891	450,855	2,387,985
Departmental and other.....	906,618	-	-	-	1,476,475	2,383,093
Community preservation taxes.....	-	722,674	-	-	-	722,674
Contributions.....	-	1,955	-	-	297,385	299,340
Investment income.....	52,878	1,987	-	-	6,442	61,307
Miscellaneous.....	6,213	-	-	-	-	6,213
<b>TOTAL REVENUES.....</b>	<b>30,705,168</b>	<b>917,193</b>	<b>2,696,616</b>	<b>364,891</b>	<b>2,231,157</b>	<b>36,915,025</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	3,180,801	-	-	303,462	152,640	3,636,903
Public safety.....	5,910,127	-	-	7,339,209	79,060	13,328,396
Education.....	10,135,045	-	-	651,258	179,281	10,965,584
Public works.....	1,993,881	-	-	3,599,962	259,908	5,853,751
Water.....	-	-	1,143,265	-	-	1,143,265
Community development.....	-	753,234	-	-	-	753,234
Human services.....	1,052,546	-	-	-	163,462	1,216,008
Culture and recreation.....	2,215,945	-	-	25,475	64,265	2,305,685
Pension benefits.....	1,827,213	-	-	-	-	1,827,213
Employee benefits.....	2,950,625	-	-	-	-	2,950,625
State and county charges.....	423,991	-	-	-	-	423,991
Debt service:						
Principal.....	2,211,712	405,000	-	300,000	-	2,916,712
Interest.....	739,362	84,750	-	-	-	824,112
<b>TOTAL EXPENDITURES.....</b>	<b>32,641,248</b>	<b>1,242,984</b>	<b>1,143,265</b>	<b>12,219,366</b>	<b>898,616</b>	<b>48,145,479</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(1,936,080)</b>	<b>(325,791)</b>	<b>1,553,351</b>	<b>(11,854,475)</b>	<b>1,332,541</b>	<b>(11,230,454)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Issuance of bonds and notes.....	-	-	-	9,173,504	-	9,173,504
Issuance of refunding bonds.....	-	-	-	240,000	-	240,000
Premium from issuance of bonds.....	-	-	-	-	399,124	399,124
Transfers in.....	3,181,583	-	-	639,697	1,118,111	4,939,391
Transfers out.....	(1,757,808)	-	(945,104)	-	(2,236,479)	(4,939,391)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>1,423,775</b>	<b>-</b>	<b>(945,104)</b>	<b>10,053,201</b>	<b>(719,244)</b>	<b>9,812,628</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(512,305)</b>	<b>(325,791)</b>	<b>608,247</b>	<b>(1,801,274)</b>	<b>613,297</b>	<b>(1,417,826)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED.....</b>	<b>6,254,346</b>	<b>1,521,445</b>	<b>2,073,660</b>	<b>(3,616,130)</b>	<b>3,988,552</b>	<b>10,221,873</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 5,742,041</b>	<b>\$ 1,195,654</b>	<b>\$ 2,681,907</b>	<b>\$ (5,417,404)</b>	<b>\$ 4,601,849</b>	<b>\$ 8,804,047</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds.....		\$ (1,417,826)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	14,094,466	
Depreciation expense.....	<u>(2,058,667)</u>	
Net effect of reporting capital assets.....		12,035,799
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		557,302
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on Net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Issuance of bonds and notes.....	(9,173,504)	
Issuance of refunding bonds.....	(240,000)	
Debt service principal payments.....	<u>2,916,712</u>	
Net effect of reporting long-term debt.....		(6,496,792)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(13,408)	
Net change in accrued interest on long-term debt.....	(320,632)	
Net change in landfill liability.....	34,000	
Net change in amortization of bond premiums.....	(192,830)	
Net change in other postemployment benefits accrual.....	(1,147,470)	
Net change in deferred outflow/(inflow) of resources related to pensions.....	387,738	
Net change in net pension liability.....	(1,951,757)	
Amortization of deferred charge on refunding.....	<u>(43,364)</u>	
Net effect of recording long-term liabilities.....		<u>(3,247,723)</u>
Change in net position of governmental activities.....		<u>\$ 1,430,760</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund	Agency Funds
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 533,067	\$ -	\$ 46,386
Investments:			
PRIT funds.....	-	851,827	-
<b>LIABILITIES</b>			
Liabilities due depositors.....	-	-	46,386
<b>NET POSITION</b>			
Restricted for other postemployment benefits.....	-	851,827	-
Held in trust for private purposes.....	\$ 533,067	\$ -	\$ -

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2017

	Private Purpose Trust Funds	Other Postemployment Benefits Trust Fund
<b>ADDITIONS:</b>		
Contributions:		
Employer contribution to the trust.....	\$ -	\$ 150,000
Employer contribution to pay for OPEB benefits.....	-	516,195
<b>Total contributions.....</b>	<b>-</b>	<b>666,195</b>
Net investment income:		
Interest.....	1,343	90,472
<b>TOTAL ADDITIONS.....</b>	<b>1,343</b>	<b>756,667</b>
<b>DEDUCTIONS:</b>		
OPEB benefits.....	-	516,195
Educational scholarships.....	4,500	-
Health and human services.....	9,946	-
<b>TOTAL DEDUCTIONS.....</b>	<b>14,446</b>	<b>516,195</b>
<b>CHANGE IN NET POSITION.....</b>	<b>(13,103)</b>	<b>240,472</b>
<b>NET POSITION AT BEGINNING OF YEAR.....</b>	<b>546,170</b>	<b>611,355</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 533,067</b>	<b>\$ 851,827</b>

See notes to basic financial statements.

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

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

**A. Reporting Entity**

The Town is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. The Town has determined that there are no component units to be included.

***Joint Ventures***

The Town is a member community of the Nauset Regional School District that provides educational services to four area communities. The members share in the operations of the District and each member is responsible for its proportionate share of the operational and capital cost of the District, which are paid in the form of assessments. The Town does not have an equity interest in the District and the 2017 assessment was \$4,398,599.

**B. Government-Wide and Fund Financial Statements*****Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units.

*Governmental activities* are primarily supported by taxes and intergovernmental revenues.

***Fund Financial Statements***

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

*Major Fund Criteria*

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

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

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

Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

*Fund Financial Statements*

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

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

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

The following major governmental funds are reported:

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

The *community preservation fund* is used to account for funds held for uses restricted by law for community preservation purposes. These funds are attributable to the Town's acceptance of the Community Preservation Act, which allows the Town to impose up to a 3% surcharge on property taxes and to receive matching state grant funds for specified uses related to the acquisition, creation, preservation and support of open space, historic resources, land for recreational use and community housing.

The *water fund* is used to account for the Town's water activities. This fund was established under Chapter 40, Section 39A of the General Laws of Massachusetts. In 2017, management determined that the Water fund, previously reported as a Business-Type Activity, should more appropriately be reported as a Governmental fund because it is not management's policy that all costs, including capital costs, i.e. depreciation and debt service, be recovered through fees and charges. The beginning net position and governmental fund balance have been restated to reflect the change in presentation.

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

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

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

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

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

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments. This fund is mainly used for educational scholarships and supporting in-need residents.

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

The *agency fund* is used to account for assets held in a purely custodial capacity and apply the accrual basis of accounting but do not have a measurement focus.

#### D. Cash and Cash Equivalents

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

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

#### E. Fair Value Measurements

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

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

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

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

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

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

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

#### F. Accounts Receivable

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

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

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

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are billed quarterly during each year and are due by August 1st, November 1st, February 1st, and May 1st, respectively, and are subject to penalties and interest if they are not paid by the respective due dates. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are processed by the last day in September following the last billing cycle and are recorded as receivables in the year they are processed.

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

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

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

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

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

##### ***Departmental and Other***

Departmental and other receivables are recorded as receivables in the year earned. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

***Intergovernmental***

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

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

G. Inventories

*Government-Wide and Fund Financial Statements*

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

H. Capital Assets

*Government-Wide Financial Statements*

Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, library materials and infrastructure (e.g., roads, water mains, and similar items), are reported in the applicable governmental activity column of the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation.

All purchases and construction costs in excess of \$20,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	25-40
Machinery and equipment.....	5-20
Vehicles.....	5-15
Library materials.....	5
Infrastructure.....	25-60

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

*Governmental Fund Financial Statements*

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

### I. Deferred Outflows/Inflows of Resources

#### *Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of 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 reported deferred outflows of resources related to pensions and deferred loss on refunding in this category.

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

#### *Government Fund Financial Statements*

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

### J. Interfund Receivables and Payables

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

#### *Government-Wide Financial Statements*

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

#### *Fund Financial Statements*

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

### K. Interfund Transfers

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

#### *Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

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

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

Net position has been “restricted for” the following:

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

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

“Gifts and grants” represents restrictions placed on assets from outside parties.

“Community preservation” represents amounts held for uses restricted by law for community preservation purposes.

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

*Fund Financial Statements (Fund Balances)*

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

The governmental fund balance classifications are as follows:

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

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

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed.

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

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

Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

#### M. Pensions

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

#### N. Long-term debt

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

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

##### *Governmental Fund Financial Statements*

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

#### O. Investment Income

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

#### P. Compensated Absences

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

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

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

*Governmental Fund Financial Statements*

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

Q. Use of Estimates*Government-Wide and Fund Financial Statements*

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

R. Total Column*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

**NOTE 2 – CASH AND INVESTMENTS**

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

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

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk.

At year-end, the carrying amount of deposits totaled \$25,561,517 and the bank balance totaled \$25,912,287. Of the bank balance, \$2,112,394 was covered by Federal Depository Insurance, \$4,595,113 was covered by the Depositors Insurance Fund, \$5,761,082 was covered by Share Insurance Fund, and \$13,443,698 was uncollateralized.

### Investments

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

As of June 30, 2017, the Town of Orleans had \$902,815 invested in MMDT; classified as a cash equivalent in the financial statements. The Town had investments of \$851,827 in PRIT.

### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town does not have an investment policy for custodial credit risk.

### Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

### Credit Risk

The Town has not adopted a formal policy related to Credit Risk.

### Concentration of Credit Risk

The Town places no limit on the amount the government may invest in any one issuer.

### Fair Market Value of Investments

The Town holds investments in the MMDT Cash Portfolio which are valued at amortized cost. The total value of the portfolio as of June 30, 2017 is \$902,815. Under the amortized cost valuation method, an investment is valued initially at its cost and thereafter adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost of the investment and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by MMDT's adviser.

PRIT investments are valued using the net asset value method. The total value of the portfolio as of June 30, 2017 is \$851,827. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserve Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Town does not have the ability to control any of the investment decisions relative to its funds.

**NOTE 3 – RECEIVABLES**

At June 30, 2017, receivables for the individual major governmental funds and nonmajor funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 609,903	\$ (8,350)	\$ 601,553
Tax liens.....	76,549	-	76,549
Motor vehicle excise taxes.....	89,749	(6,874)	82,875
User fees.....	981,633	-	981,633
Departmental and other.....	302,355	-	302,355
Intergovernmental.....	972,172	-	972,172
Total.....	<u>\$ 3,032,361</u>	<u>\$ (15,224)</u>	<u>\$ 3,017,137</u>

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

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 471,552	\$ -	\$ 471,552
Tax liens.....	76,549	-	76,549
Tax foreclosures.....	32,584	-	32,584
Motor vehicle excise.....	82,875	-	82,875
User Charges.....	-	981,633	981,633
Departmental and other.....	-	63,112	63,112
Intergovernmental.....	21,011	948,941	969,952
Total.....	<u>\$ 684,571</u>	<u>\$ 1,993,686</u>	<u>\$ 2,678,257</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 41,236,389	\$ 770,748	\$ -	\$ 42,007,137
Construction in progress.....	4,223,682	11,720,449	(579,660)	15,364,471
Total capital assets not being depreciated.....	<u>45,460,071</u>	<u>12,491,197</u>	<u>(579,660)</u>	<u>57,371,608</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	28,293,741	9,495	-	28,303,236
Improvements.....	1,869,468	570,165	-	2,439,633
Infrastructure.....	37,231,000	930,812	-	38,161,812
Machinery and equipment.....	2,321,639	235,728	-	2,557,367
Vehicles.....	4,710,426	436,729	(83,765)	5,063,390
Library materials.....	1,127,923	-	-	1,127,923
Total capital assets being depreciated.....	<u>75,554,197</u>	<u>2,182,929</u>	<u>(83,765)</u>	<u>77,653,361</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(12,506,418)	(652,563)	-	(13,158,981)
Improvements.....	(437,197)	(74,906)	-	(512,103)
Infrastructure.....	(14,500,412)	(686,816)	-	(15,187,228)
Machinery and equipment.....	(1,197,305)	(164,457)	-	(1,361,762)
Vehicles.....	(2,950,648)	(450,737)	83,765	(3,317,620)
Library materials.....	(1,081,020)	(29,188)	-	(1,110,208)
Total accumulated depreciation.....	<u>(32,673,000)</u>	<u>(2,058,667)</u>	<u>83,765</u>	<u>(34,647,902)</u>
Total capital assets being depreciated, net.....	<u>42,881,197</u>	<u>124,262</u>	<u>-</u>	<u>43,005,459</u>
Total governmental activities capital assets, net.....	<u>\$ 88,341,268</u>	<u>\$ 12,615,459</u>	<u>\$ (579,660)</u>	<u>\$ 100,377,067</u>

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

<b>Governmental Activities:</b>	
General government.....	\$ 70,593
Public safety.....	455,175
Education.....	170,462
Public works.....	570,915
Water.....	424,368
Human services.....	64,968
Culture and recreation.....	<u>302,186</u>
Total depreciation expense - governmental activities.....	<u>\$ 2,058,667</u>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

As of June 30, 2017, the Town had an interfund receivable and payable between the revolving fund and the Chapter 90 highway fund in the amount of approximately \$241,064. The purpose of this balance was to cover a deficit cash balance for expenditures that will be reimbursed by the state grants.

Interfund transfers for the year ended June 30, 2017, are summarized as follows:

Transfers Out:	Transfers In:			Total
	General Fund	Capital Project Fund	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ 639,697	\$ 1,118,111	\$ 1,757,808 (1)
Water Fund.....	945,104	-	-	945,104 (2)
Nonmajor Governmental Funds.....	2,236,479	-	-	2,236,479 (3)
<b>Total.....</b>	<b>\$ 3,181,583</b>	<b>\$ 639,697</b>	<b>\$ 1,118,111</b>	<b>\$ 4,939,391</b>

- (1) Represents budgeted transfers to the capital project funds and various nonmajor funds from the general fund.
- (2) Represents budgeted transfers to the general fund from the water fund.
- (3) Represents budgeted transfers to the general fund from various nonmajor funds.

**NOTE 6 – SHORT-TERM FINANCING**

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

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

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund.

Details related to the short-term debt activity for the year ended June 30, 2017, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2016	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2017
BAN	Bond Anticipation Notes.....	0.79	2/10/2017	\$ 127,809	\$ -	\$ 127,809	\$ -
BAN	Bond Anticipation Notes.....	0.80	2/10/2017	5,493,407	-	5,493,407	-
BAN	Bond Anticipation Notes.....	0.80	2/10/2017	-	4,147,783	4,147,783	-
BAN	Bond Anticipation Notes.....	2.00	2/9/2018	-	14,979,840	-	14,979,840
<b>Total.....</b>				<b>\$ 5,621,216</b>	<b>\$ 19,127,623</b>	<b>\$ 9,768,999</b>	<b>\$ 14,979,840</b>

**NOTE 7 – LONG-TERM DEBT**

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

Details related to the outstanding indebtedness at June 30, 2017, and the debt service requirements are as follows:

Project	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
Municipal Purpose Bonds 2005.....	0.00	\$ 50,000	\$ -	\$ 5,000	\$ 45,000
Municipal Purpose Bonds 2008.....	3.00	485,000	-	295,000	190,000
Municipal Purpose Bonds 2010.....	2.50	130,000	-	20,000	110,000
Municipal Purpose Bonds 2011.....	4.00	4,400,000	-	260,000	4,140,000
Municipal Purpose Refunding Bonds 2012.....	2.00 - 3.00	3,555,000	-	570,000	2,985,000
Municipal Purpose Refunding Bonds 2015.....	2.00 - 5.00	6,450,000	-	700,000	5,750,000
Municipal Purpose Bonds 2016.....	2.00 - 4.00	4,046,712	-	766,712	3,280,000
Long-Term State House Note.....	0.50	300,000	-	300,000	-
Refunding State House Serial Loan Notes 2017.....	1.50 - 2.50	-	240,000	-	240,000
State House Serial Loan Notes 2017.....	1.50 - 2.50	-	5,504	-	5,504
Municipal Purpose Bonds 2017.....	3.00 - 4.00	-	9,168,000	-	9,168,000
Total governmental bonds payable.....		19,416,712	9,413,504	2,916,712	25,913,504
Add: Unamortized bond premium.....		1,036,711	399,124	206,294	1,229,541
Total governmental bonds payable, net.....		\$ 20,453,423	\$ 9,812,628	\$ 3,123,006	\$ 27,143,045

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018.....	\$ 3,628,504	\$ 927,905	\$ 4,556,409
2019.....	3,380,000	811,332	4,191,332
2020.....	3,165,000	692,654	3,857,654
2021.....	2,865,000	583,341	3,448,341
2022.....	1,930,000	488,911	2,418,911
2023.....	1,770,000	411,676	2,181,676
2024.....	1,400,000	342,505	1,742,505
2025.....	1,220,000	287,914	1,507,914
2026.....	950,000	236,826	1,186,826
2027.....	370,000	206,726	576,726
2028.....	370,000	193,926	563,926
2029.....	360,000	181,126	541,126
2030.....	360,000	168,232	528,232
2031.....	365,000	155,526	520,526
2032.....	330,000	142,258	472,258
2033.....	345,000	129,602	474,602
2034.....	350,000	116,976	466,976
2035.....	345,000	104,352	449,352
2036.....	350,000	91,502	441,502
2037.....	350,000	78,028	428,028
2038.....	360,000	57,178	417,178
2039.....	370,000	50,400	420,400
2040.....	370,000	36,100	406,100
2041.....	370,000	21,626	391,626
2042.....	240,000	7,150	247,150
Total.....	\$ <u>25,913,504</u>	\$ <u>6,523,772</u>	\$ <u>32,437,276</u>

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2017, the Town had the following authorized and unissued debt:

Purpose	Amount
Stormwater facility.....	\$ 274,750
Elementary School door and window replacement.....	357,216
DPW garage design.....	545
Roads.....	482,000
Water planning.....	39,375
Nauset beach parking lot building.....	7,000
Police station planning.....	7,000
DPW facility planning.....	5,750
Water department equipment.....	31,677
Town center planning.....	5,750
Water mains.....	16,667
Water wells.....	20,125
Fuel depot planning.....	1,250
Nauset estuary study.....	2,311
Water quality management planning.....	27,000
Police station construction.....	9,241,850
Town fuel depot equipment.....	19,375
Nauset beach parking lot.....	299,000
DPW facility.....	515,125
Nauset estuary dredging.....	265,400
Rock Harbor bulkhead.....	2,443,725
Elementary school HVAC.....	1,250
Skaket beach administrative building feasibility study.....	35,000
Beach road water main.....	156,000
Water quality management plan.....	3,228,200
Engineering study for dredging.....	200,000
DPW/Natural resources central garage and facilities construction.....	13,575,000
Water quality/adaptive management plan.....	2,963,560
Tri-Town septage facility and compost shed demolition.....	870,000
Beach road water main replacement.....	1,270,000
Nauset Regional High School feasibility study.....	1,300,000
<b>Total.....</b>	<b>\$ 37,661,901</b>

Changes in Long-term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Balance June 30, 2016	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases	Other Decreases	Balance June 30, 2017	Due Within One Year
<b>Governmental Activities:</b>							
Long-Term Bonds and Notes.....	\$ 19,416,712	\$ 9,413,504	\$ (2,916,712)	\$ -	\$ -	\$ 25,913,504	\$ 3,628,504
Unamortized Bond Premium.....	1,036,711	-	-	399,124	(206,294)	1,229,541	222,561
Post-Closure Landfill.....	680,000	-	-	-	(34,000)	646,000	34,000
Other Postemployment Benefits.....	8,715,647	-	-	1,813,665	(666,195)	9,863,117	-
Compensated Absences.....	1,523,887	-	-	153,105	(139,695)	1,537,297	688,000
Net pension liability.....	20,147,095	-	-	3,734,741	(1,782,984)	22,098,852	-
Total governmental activity							
long-term liabilities.....	\$ 51,520,052	\$ 9,413,504	\$ (2,916,712)	\$ 6,100,635	\$ (2,829,168)	\$ 61,288,311	\$ 4,573,065

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The Town adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Implementation of GASB 54 is required for years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town’s financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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

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

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

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

At year end the balance of the general stabilization fund is \$134,771, respectively. The Town’s stabilization fund is reported as unassigned fund balance within the general fund.

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

	Governmental Funds					Total Governmental Funds
	General	Community Preservation Act Fund	Water Fund	Capital projects	Nonmajor Governmental Funds	
Fund Balances						
Nonspendable:						
Permanent fund principal..... \$	- \$	- \$	- \$	- \$	369,122 \$	369,122
Restricted for:						
CPA Fund.....	-	1,195,654	-	-	-	1,195,654
Capital Projects.....	-	-	2,681,907	-	-	2,681,907
School Lunch.....	-	-	-	-	50,354	50,354
Other Revolving.....	-	-	-	-	2,471,978	2,471,978
Expendable permanent funds.....	-	-	-	-	1,311,271	1,311,271
Debt service.....	190,891	-	-	-	399,124	590,015
Committed to:						
General government.....	61,253	-	-	-	-	61,253
Public safety.....	75,255	-	-	-	-	75,255
Public works.....	383,159	-	-	-	-	383,159
Culture and recreation.....	13,562	-	-	-	-	13,562
Assigned to:						
General government.....	65,336	-	-	-	-	65,336
Public safety.....	84,467	-	-	-	-	84,467
Education.....	81,236	-	-	-	-	81,236
Public works.....	1,327	-	-	-	-	1,327
Human services.....	668	-	-	-	-	668
Culture and recreation.....	55,245	-	-	-	-	55,245
Subsequent year expenditures.....	1,889,962	-	-	-	-	1,889,962
Unassigned.....	2,839,680	-	-	(5,417,404)	-	(2,577,724)
Total Fund Balances..... \$	<u>5,742,041</u> \$	<u>1,195,654</u> \$	<u>2,681,907</u> \$	<u>(5,417,404)</u> \$	<u>4,601,849</u> \$	<u>8,804,047</u>

**NOTE 9 – RISK FINANCING**

*Insurances*

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 Town participates in a premium-based health care plan for its active and retired employees and a premium-based workers compensation plan for all active employees. 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.

**NOTE 10 – PENSION PLAN***Plan Description*

The Town is a member of the Barnstable County Retirement Association (Association), a cost-sharing multiple employer defined benefit pension plan covering eligible employees of the 50 member units. The Association is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan.

The Town is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiemployer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirement of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, education collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

*Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Town to 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* and the Commonwealth is a nonemployer contributor in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2016. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$783,371 is reported in the general fund as intergovernmental revenue and pension expense in the current year. The portion of the Commonwealth's collective net pension liability associated with the Town is \$7,679,617 as of the measurement date.

*Benefits Provided*

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

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

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

*Contributions*

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the Association a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The Town's proportionate share of the required contribution equaled its actual contribution for the year ended December 31, 2016, was \$1,782,984, 20.0% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

*Pension Liabilities*

At June 30, 2017, the Town reported a liability of \$22,098,852 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016.

Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2016, the Town's proportion was 3.145%, which changed from its 3.200% proportion measured at December 31, 2015.

*Pension Expense*

For the year ended June 30, 2017, the Town recognized pension expense of \$3,346,913. At June 30, 2017, the Town reported deferred outflows and (inflows) of resources related to pensions of \$2,760,705 and (\$545,696), respectively, from the net difference between projected and actual investment earnings on pension plan investments.

The balances of deferred outflows and inflows at June 30, 2017, consist of the following:

Deferred category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience..... \$	-	\$ (283,153)	\$ (283,153)
Changes of assumptions.....	1,310,918	-	1,310,918
Difference between projected and actual earnings.....	1,256,166	-	1,256,166
Changes in proportionate share of contributions.....	193,621	(262,543)	(68,922)
Total Deferred Outflows/(Inflows) of Resources..... \$	2,760,705	\$ (545,696)	\$ 2,215,009

The deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2018.....	\$ 615,552
2019.....	615,552
2020.....	607,949
2021.....	220,745
2022.....	<u>155,211</u>
Total.....	\$ <u>2,215,009</u>

*Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement date that was updated to December 31, 2016:

Valuation date.....	January 1, 2016
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Appropriation increase at 5.28% per year.
Remaining amortization period.....	20 years from July 1, 2016 for 2002 and 2003 Early Retirement Incentives, retiree sheriffs liability and remaining unfunded liability, and 6 years from July 1, 2016 for 2010 Early Retirement Incentive.
Asset valuation method.....	A preliminary actuarial value is first determined by taking the actuarial value of assets at the beginning of the year and adding assumed investment earnings (at the assumed actuarial rate of return) and the net new money during the year (contributions less benefit payments and administrative expenses). Twenty percent of the difference between the market value of assets as reported in the Association's Annual Statement and the preliminary actuarial value of assets is added to the preliminary actuarial value. In order for the actuarial value to not differ too significantly from the market value of assets, the final actuarial value of assets must be within 20% of the market value of assets.
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.
Cost of living adjustments.....	3.0% of the first \$16,000 of retirement income as of July 1, 2015, \$17,000 as of July 1, 2016, and \$18,000 as of July 1, 2017.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.
Rates of disability.....	For general employees, it was assumed that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).

Mortality Rates:

Pre-Retirement.....	The RP-2000 Employee Mortality Table projected generationally with a Scale BB2D from 2009.
Healthy Retiree.....	The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale BB2D from 2009.
Disabled Retiree.....	The RP-2000 Healthy Annuitant Mortality Table projected generationally with a Scale BB2D from 2015.
Investment rate of return/Discount rate.....	7.625%, net of pension plan investment expense, including inflation.

*Investment policy*

The pension plan’s policy in regard to the allocation of invested assets is established by PRIT. Plan assets are managed on a total return basis with at long-term objective of achieving a fully funded status for the benefits provided by the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic equity.....	18.00%	6.44%
International developed markets equity.....	16.00%	7.40%
International emerging markets equity.....	6.00%	9.42%
Core fixed income.....	13.00%	2.02%
High-yield fixed income.....	10.00%	4.43%
Real estate.....	10.00%	5.00%
Commodities.....	4.00%	4.43%
Hedge fund, GTAA, Risk parity.....	13.00%	3.75%
Private equity.....	10.00%	10.47%
	100.00%	

*Rate of return*

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.40%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Discount rate*

The discount rate used to measure the total pension liability was 7.625%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future

benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.625% as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.625%) or 1-percentage-point higher (8.625%) than the current rate:

	1% Decrease (6.625%)	Current Discount (7.625%)	1% Increase (8.625%)
The Town's proportionate share of the net pension liability.....	\$ 28,121,028	\$ 22,098,852	\$ 17,019,444

*Changes in Assumptions*

The discount rate was changed to 7.625% from 7.750%.

*Changes in Plan Provisions*

None.

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (not updated with 2017 information)**

*Plan Description* – The Town of Orleans administers a single-employer defined benefit healthcare plan (Plan). The Plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through a single employer defined Other Postemployment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state. The state pays 85 – 90% of the total premium; the retiree's copayment is 10 – 15% of the total premium as well as full payment for catastrophic illness coverage

*Funding Policy* – The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 75% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25% of their premium costs. For 2017, the Town's age-adjusted contribution to the plan totaled \$666,000.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish a postemployment benefit trust fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities.

During 2017, the Town pre-funded future OPEB liabilities totaling approximately \$150,000 by contributing funds to the Other Postemployment Benefit Funds in excess of the pay-as-you-go required contribution. These funds are

reported within the Fiduciary Funds financial statements. As of June 30, 2017, the balance of this fund totaled \$852,000.

The annual money-weighted rate of return on OPEB plan investments was 12.09%. The money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

*Plan Membership* – The following table represent the Plan's membership at June 30, 2016:

Current retirees, beneficiaries, and dependents.....	112
Current active members.....	<u>144</u>
 Total.....	 <u><u>256</u></u>

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

Total OPEB Liability.....	\$ 21,609,632
Less: Plan fiduciary net position.....	<u>(851,827)</u>
 Net OPEB liability.....	 <u><u>\$ 20,757,805</u></u>
 The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.....	  3.94%

*Significant Actuarial Methods and Assumptions* – The total OPEB liability in the June 30, 2016 actuarial valuation was determined by using the following actuarial methods and assumptions, applied to all periods including the measurement date that was updated to June 30, 2017 to be in accordance with GASB #74:

Valuation date.....	Actuarially determined contribution for fiscal year ending June 30, 2017 was determined with the June 30, 2016 actuarial valuation.
Actuarial cost method.....	Individual Entry Age Normal - Level Percentage of Payroll
Asset valuation method.....	Market Value of Assets as of the Reporting Date, June 30, 2017.
Discount rate.....	3.96% as of June 30, 2017 and 3.30% as of June 30, 2016.
Investment rate of return.....	7.25% for assets invested in the State Retiree Benefits Trust Fund, 7.0% for all others.
Inflation.....	3.50%.
Salary increases.....	Service-related increases for Group 1 and Group 2 employees: 6.00% decreasing over 9 years to an ultimate 4.25%. Service-related increases for Group 4 members: 7.00% decreasing over 5 years to an ultimate level of 4.75%.

Healthcare trend rates:

Cape Cod Municipal Health Group.....	Under 65: 10.5% for 1 year, then 7.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year. Over 65: 1.9% for 1 year, then 7.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year. Dental: 2.1% for 1 year, then 4.5% per year.
Group Insurance Commission of the Commonwealth of Massachusetts.....	Under 65: 6.8% for 1 year, then 8.5% decreasing by 0.5% each year to an ultimate level of 5.0% per year. Over 65: 1.6% for 1 year, then 8.5% decreasing by 0.5% each year to an ultimate level of 5.0% per year.
Part B contributions.....	Retiree contributions are expected to increase with the respective trend shown above.

Pre-Retirement mortality:

Healthy non-teachers.....	RP-2000 Employee Mortality Table projected generationally with scale BB2D from 2009.
Healthy non-teachers (Falmouth).....	RP-2000 Employee Mortality Table projected generationally with scale BB from 2009.

Post-Retirement mortality:

Healthy non-teachers.....	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB2D from 2009.
Healthy non-teachers (Falmouth).....	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB from 2009.
Disabled non-teachers.....	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB2D from 2015.
Disabled non-teachers (Falmouth).....	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB from 2012.

*Investment Policy* – The Town’s Policy in regard to the allocation of invested assets is established and may be amended by the Board of Selectmen by a majority vote of its members. The OPEB plan’s assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan. The long-term real rate of return on OPEB investments was determined using the Town’s investment policy.

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

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	25.00%	6.44%
International developed markets equity.....	9.00%	7.40%
International emerging markets equity.....	10.00%	9.42%
Core fixed income.....	15.00%	2.02%
High-yield fixed income.....	8.00%	4.43%
Real estate.....	10.00%	5.00%
Commodities.....	5.00%	4.43%
Hedge fund, GTAA, Risk parity.....	9.00%	3.75%
Private equity.....	9.00%	10.47%
Total Asset Allocation.....	100.00%	

The Town’s blended discount rate is the rate determined based on the assets in the OPEB trust fund, the Town’s funding policy, the June 30, 2017 Bond Buyer’s 20 bond index of 3.58% and the expected return on assets which resulted in a selected discount rate of 3.96%.

*Sensitivity of the net OPEB liability to changes in the discount rate* – The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 3.96%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (2.96%) or 1-percentage-point higher (4.96%) than the current rate.

	1% Decrease (2.96%)	Current Discount Rate (3.96%)	1% Increase (4.96%)
Net OPEB liability..... \$	23,984,554 \$	20,757,805 \$	18,117,211

*Sensitivity of the net OPEB liability to changes in the healthcare trend* — The following table presents the net other postemployment benefit liability, calculating the healthcare trend rate as if it was 1–percentage-point lower or 1–percentage-point higher than the current rate.

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
Net OPEB liability..... \$	17,550,250 \$	20,757,805 \$	24,851,461

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

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

Annual Required Contribution.....	\$ 1,784,184
Interest on the net OPEB obligation.....	345,140
Adjustment to the annual required contribution.....	<u>(315,659)</u>
Annual OPEB cost (expense).....	1,813,665
Contributions made.....	<u>(666,195)</u>
Increase in net OPEB obligation.....	1,147,470
Net OPEB obligation - beginning of year.....	<u>8,715,647</u>
Net OPEB obligation - end of year.....	<u>\$ 9,863,117</u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for year 2017, and the two previous years was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2017	\$ 1,813,665	37%	\$ 9,863,117
6/30/2016	2,080,088	49%	8,715,647
6/30/2015	1,965,061	48%	7,659,936

*Funded Status and Funding Progress* – The funded status of the Plan as of the most recent actuarial valuation dates is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
6/30/2016	\$ 610,800	\$ 20,286,279	\$ 19,675,479	3.00%	\$ n/a	n/a
6/30/2014	-	23,526,419	23,526,419	0.00%	n/a	n/a
6/30/2012	-	21,680,253	21,680,253	0.00%	n/a	n/a

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

*Actuarial Methods and Assumptions* – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that

are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016, actuarial valuation, actuarial liabilities were determined using the entry age normal cost method. The actuarial assumptions included a 7.25% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, a discount rate of 3.96%, an annual medical/prescription drug cost trend rate of: 10.5% initially, then 7% decreasing 0.5% for six years to an ultimate level of 4.5% per year for members under age 65 and 1.9% initially, then 7.0% decreasing by 0.5% for ten years to an ultimate level of 4.5% per year for members over age 65, a GIC medical/prescription drug cost trend rate of 6.8% then 8.5% decreasing by 0.5% for eight years to an ultimate level of 5.0% per year for members under age 65 and 1.6% then 8.5% decreasing 0.5% for eight years to an ultimate rate of 5.0% per year for members over age 65, and included a 3.5% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized over a 30 year open period using a level percentage of projected payroll with amortization payments increasing at 3.5% per year. The asset valuation method being used is market value. The remaining amortization period at June 30, 2016 is 30 years.

*Changes in Assumptions* – The discount rate was changed to 3.96% from 3.30%.

*Changes in Plan Provisions* – None.

#### **NOTE 12 – LANDFILL**

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 year after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$646,000 has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

#### **NOTE 13 – CONTINGENCIES**

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2017, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2017.

#### **NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 16, 2018, which is the date the financial statements were available to be issued.

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

During 2017, the following GASB pronouncements were implemented:

- GASB Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #77, *Tax Abatement Disclosures*. This pronouncement did not impact the basic financial statements.
- GASB Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This pronouncement did not impact the basic financial statements.
- GASB Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*. This pronouncement did not impact the basic financial statements.
- GASB Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2020.
- The GASB issued Statement #85, *Omnibus 2017*, which is required to be implemented in 2018.
- The GASB issued Statement #86, *Certain Debt Extinguishment Issues*, which is required to be implemented in 2018.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.

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

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# ***Required Supplementary Information***

# ***Budgetary Comparison Schedules***

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

The water special revenue fund is used to account for the Town's water activities. This fund was established under Chapter 40, Section 39A of the General Laws of Massachusetts.

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

YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts - General Fund</u>				
	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 24,072,986	\$ 24,072,986	\$ 24,360,857	\$ -	\$ 287,871
Motor vehicle excise taxes.....	1,123,000	1,123,000	1,298,671	-	175,671
Hotel, meals and other excise taxes.....	584,131	584,131	587,371	-	3,240
Charges for services.....	2,081,633	2,081,633	2,091,610	-	9,977
Penalties and interest on taxes.....	105,308	105,308	138,687	-	33,379
Payments in lieu of taxes.....	4,600	4,600	4,596	-	(4)
Intergovernmental.....	584,982	584,982	601,249	-	16,267
Departmental and other.....	634,914	634,914	906,618	-	271,704
Investment income.....	12,114	12,114	52,540	-	40,426
Miscellaneous.....	-	-	6,213	-	6,213
<b>TOTAL REVENUES.....</b>	<b>29,203,668</b>	<b>29,203,668</b>	<b>30,048,412</b>	<b>-</b>	<b>844,744</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	3,317,745	3,464,502	3,180,801	126,589	157,112
Public safety.....	6,028,331	6,316,786	5,910,127	159,722	246,937
Education.....	9,415,068	9,432,940	9,351,674	81,236	30
Public works.....	2,893,099	2,912,011	1,993,881	384,486	533,644
Human services.....	1,076,273	1,075,692	1,052,546	668	22,478
Culture and recreation.....	2,430,277	2,306,876	2,215,945	68,807	22,124
Pension benefits.....	1,993,087	1,827,291	1,827,213	-	78
Employee benefits.....	2,664,073	2,803,190	2,800,625	-	2,565
State and county charges.....	248,700	424,235	423,991	-	244
Debt service:					
Principal.....	2,211,712	2,211,712	2,211,712	-	-
Interest.....	634,869	628,113	627,362	-	751
<b>TOTAL EXPENDITURES.....</b>	<b>32,913,234</b>	<b>33,403,348</b>	<b>31,595,877</b>	<b>821,508</b>	<b>985,963</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(3,709,566)</b>	<b>(4,199,680)</b>	<b>(1,547,465)</b>	<b>(821,508)</b>	<b>1,830,707</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in.....	3,181,583	3,181,583	3,181,583	-	-
Transfers out.....	(1,907,808)	(1,907,808)	(1,907,808)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)...</b>	<b>1,273,775</b>	<b>1,273,775</b>	<b>1,273,775</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(2,435,791)</b>	<b>(2,925,905)</b>	<b>(273,690)</b>	<b>(821,508)</b>	<b>1,830,707</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>5,862,960</b>	<b>5,862,960</b>	<b>5,862,960</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 3,427,169</b>	<b>\$ 2,937,055</b>	<b>\$ 5,589,270</b>	<b>\$ (821,508)</b>	<b>\$ 1,830,707</b>

See notes to required supplementary information.

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

YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts - Water Fund</u>		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
<b>REVENUES:</b>					
Charges for services.....	\$ 2,076,836	\$ 2,076,836	\$ 2,672,291	\$ -	\$ 595,455
Penalties and interest on taxes.....	-	-	24,325	-	24,325
<b>TOTAL REVENUES.....</b>	<b>2,076,836</b>	<b>2,076,836</b>	<b>2,696,616</b>	<b>-</b>	<b>619,780</b>
<b>EXPENDITURES:</b>					
Current:					
Water.....	1,343,193	1,418,123	1,143,265	262,199	12,659
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>733,643</b>	<b>658,713</b>	<b>1,553,351</b>	<b>(262,199)</b>	<b>632,439</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers out.....	(945,104)	(945,104)	(945,104)	-	-
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(211,461)</b>	<b>(286,391)</b>	<b>608,247</b>	<b>(262,199)</b>	<b>632,439</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>2,073,660</b>	<b>2,073,660</b>	<b>2,073,660</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 1,862,199</b>	<b>\$ 1,787,269</b>	<b>\$ 2,681,907</b>	<b>\$ (262,199)</b>	<b>\$ 632,439</b>

See notes to required supplementary information.

# ***Pension Plan Schedules***

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

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

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Town along with related ratios.

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

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

	December 31, 2014	December 31, 2015	December 31, 2016
Town's proportion of the net pension liability (asset).....	3.153%	3.200%	3.145%
Town's proportionate share of the net pension liability (asset)..... \$	17,802,000	\$ 20,147,000	\$ 22,098,852
Town's covered employee payroll..... \$	8,271,000	\$ 8,873,000	\$ 8,899,203
Net pension liability as a percentage of covered-employee payroll.....	215.2%	227.1%	248.32%
Plan fiduciary net position as a percentage of the total pension liability.....	60.43%	58.10%	57.28%

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

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**  
**BRISTOL COUNTY CONTRIBUTORY RETIREMENT SYSTEM**

	June 30, 2015	June 30, 2016	June 30, 2017
Actuarially determined contribution.....	\$ 1,642,000	\$ 1,728,000	\$ 1,782,984
Contributions in relation to the actuarially determined contribution.....	<u>1,642,000</u>	<u>1,728,000</u>	<u>1,782,984</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 8,271,000	\$ 8,873,000	\$ 8,899,203
Contributions as a percentage of covered- employee payroll.....	19.9%	19.5%	20.0%

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

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS  
OF THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

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The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

<u>Fiscal Year</u>	<u>Commonwealth's 100% Share of the Net Pension Liability Associated with the Town</u>	<u>Town's Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
2017.....	\$ 7,679,617	\$ 783,371	52.73%
2016.....	6,577,293	533,477	57.83%
2015.....	5,047,663	350,685	61.46%

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

See notes to required supplementary information.

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

## GASB Statement #74 Schedules

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered employee payroll.

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

The Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

## GASB Statement #45 Schedules

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

The Schedule of Employer Contributions compares, overtime, the annual required contributions to the actual contributions made.

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

**SCHEDULE OF CHANGES IN THE  
TOWN'S NET OPEB LIABILITY AND RELATED RATIOS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017
<b>Total OPEB Liability</b>	
Service Cost.....	\$ 1,177,954
Interest.....	764,269
Changes of benefit terms.....	-
Differences between expected and actual experience.....	-
Changes of assumptions.....	(2,054,103)
Benefit payments.....	(516,195)
Net change in total OPEB liability.....	(628,075)
Total OPEB liability- beginning.....	22,237,707
Total OPEB liability- ending (a).....	21,609,632
<b>Plan fiduciary net position</b>	
Employer contributions to the trust.....	\$ 150,000
Employer contributions to pay benefit payments.....	516,195
Net investment income.....	90,472
Benefit payments.....	(516,195)
Net change in plan fiduciary net position.....	240,472
Plan fiduciary net position- beginning.....	611,355
Plan fiduciary net position- ending (b).....	\$ 851,827
<b>Town's net OPEB liability- ending (a)-(b).....</b>	<b>\$ 20,757,805</b>
 Plan fiduciary net position as a percentage of the total OPEB liability.....	3.94%
Covered-employee payroll.....	N/A
Town's net OPEB liability as a percentage of covered-employee payroll.....	N/A

N/A - Information currently not available.

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

See notes to required supplementary information.

**SCHEDULE OF TOWNS CONTRIBUTIONS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017
Actuarially determined contribution.....	\$ 1,784,184
Contributions in relation to the actuarially determined contribution.....	666,195
Contribution deficiency (excess).....	\$ 1,117,989
Covered-employee payroll.....	\$ N/A
Contributions as a percentage of covered- employee payroll.....	N/A

N/A - Information currently not available.

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

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURNS**  
**OTHER POSTEMPLOYMENT BENEFIT PLAN**

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June 30,  
2017

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Annual money-weighted rate of return, net of investment expense.....	12.09%
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The annual money-weighted rate of return has been calculated by the Pension Reserves Investment Management Board (PRIM).

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

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

JUNE 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2016	\$ 610,800	\$ 20,286,279	\$ 19,675,479	3.00%	n/a	n/a
6/30/2014	-	23,526,419	23,526,419	0.00%	n/a	n/a
6/30/2012	-	21,680,253	21,680,253	0.00%	n/a	n/a

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2017	\$ 1,784,184	\$ 666,195	37.34%
6/30/2016	2,080,088	1,024,377	49.25%
6/30/2015	1,965,061	938,432	47.76%
6/30/2014	1,916,024	732,779	38.24%
6/30/2013	1,810,540	683,216	37.74%

n/a - information currently not available.

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

YEAR ENDED JUNE 30, 2017

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Actuarial Methods:

Valuation date.....	June 30, 2016
Actuarial cost method.....	Entry Age Normal - level percentage of payroll
Amortization method.....	Payments increasing at 3.5%
Remaining amortization period.....	30 years as of June 30, 2016, open
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	7.25%
Discount rate.....	3.96%
Inflation rate.....	3.50%
Projected salary increases.....	7.50% decreasing to ultimate level of 4.00%
Medical/drug cost trend rate.....	10.50% graded to 4.50% over 8 years

Plan Membership:

Current retirees, beneficiaries, and dependents.....	112
Current active members.....	<u>144</u>
Total.....	<u><u>256</u></u>

See notes to required supplementary information.

**NOTE A – BUDGETARY BASIS OF ACCOUNTING****A. Budgetary Information**

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

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations among departments require the approval of Town Meeting. Transfers within departments, between certain categories of expenditures, can be made with finance committee approval.

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

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Board of Selectmen and written approval from the Massachusetts Department of Revenue.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2017 approved budget authorized approximately \$34.8 million in appropriations and other amounts to be raised. During 2017, the original budget was increased by \$490,000 in supplemental appropriations, mainly for general government, public safety, public works, and human services expenditures.

The Town adopts an annual budget for the water special revenue fund in conformity with the guidelines described above.

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

**B. Budgetary - GAAP Reconciliation**

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2017, is presented on the following page:

Net change in fund balance - budgetary basis.....	\$	(273,690)
<u>Perspective difference:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		338
<u>Basis of accounting differences:</u>		
Net change in revenues in recording 60 day receipts.....		130,000
Net change in recording accrued expenditures.....		(368,953)
Increase in revenues due to on-behalf payments.....		783,371
Increase in expenses due to on-behalf payments.....		<u>(783,371)</u>
Net change in fund balance - GAAP basis.....	\$	<u><u>(512,305)</u></u>

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

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

Schedule of Town's Contributions

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

Changes in Assumptions – The discount rate was changed to 7.625% from 7.750%

Changes in Plan Provisions – None.

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Town administers a single-employer defined benefit healthcare plan (Plan). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town's group health insurance plan, which covers both active and retired members. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts, (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state.

***The Other Postemployment Benefit Plan***The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios

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

Schedule of the Town's Contributions

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

Schedule of Investment Return

The Schedule of Investment Return includes the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

***The Town***

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

Schedule of Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

Schedule of Employer Contributions

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

Schedule of Actuarial Methods and Assumptions

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

Changes in Assumptions - The discount rate was changed to 3.96% from 3.30%

Changes in Plan Provisions – None

***Report on Internal Control over  
Financial Reporting and on Compliance***



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## **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**

### **Independent Auditor's Report**

To the Honorable Board of Selectmen  
Town of Orleans, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 16, 2018.

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

*Powers + Juliani, LLC*

January 16, 2018