

***TOWN OF ORANGE, MASSACHUSETTS***

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

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

TOWN OF ORANGE, 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 Orange, Massachusetts

## **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Orange, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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.

## **Opinion**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 February 21, 2018, on our consideration of the Town of Orange, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Orange, 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.

February 21, 2018

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

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

As management of the Town of Orange, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town 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 Orange'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 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) 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 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 the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position 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.

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

**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 three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The Town reports the General Fund as a major fund for presentation purposes. The remaining governmental funds are aggregated and shown as nonmajor governmental funds.

**Proprietary funds.** The Town maintains two types of propriety funds.

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its Water and Sewer Departments.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among various functions. The Town uses its internal service fund to account for dental insurance activities.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

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

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town of Orange's assets and deferred outflows exceed liabilities and deferred inflows for governmental activities by \$12.2 million and the business-type activities by \$7.1 million at the close of the most recent year. Key components of the Town's activities are presented below.



**Governmental Activities**

	<u>2017</u>	<u>2016</u> (As Restated)
<b>Assets:</b>		
Current assets.....	\$ 7,579,661	\$ 7,015,644
Noncurrent assets (excluding capital).....	165,137	165,137
Capital assets.....	<u>24,484,295</u>	<u>25,376,040</u>
<b>Total assets.....</b>	<b><u>32,229,093</u></b>	<b><u>32,556,821</u></b>
<b>Deferred outflows of resources.....</b>	<b><u>1,807,131</u></b>	<b><u>1,811,660</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	1,077,970	997,164
Noncurrent liabilities (excluding debt).....	17,089,353	14,930,265
Current debt.....	1,319,979	1,198,829
Noncurrent debt.....	<u>2,119,866</u>	<u>2,296,220</u>
<b>Total liabilities.....</b>	<b><u>21,607,168</u></b>	<b><u>19,422,478</u></b>
<b>Deferred inflows of resources.....</b>	<b><u>235,853</u></b>	<b><u>-</u></b>
<b>Net Position:</b>		
Net investment in capital assets.....	21,415,247	22,613,147
Restricted.....	1,310,808	1,442,463
Unrestricted.....	<u>(10,532,852)</u>	<u>(9,109,607)</u>
<b>Total net position.....</b>	<b><u>\$ 12,193,203</u></b>	<b><u>\$ 14,946,003</u></b>

Governmental net position of \$21.4 million reflects its investment in capital assets (e.g., land, buildings, 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 net position of \$1.3 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 \$10.5 million deficit. The primary reason for this deficit balance is the recognition of the Pension and OPEB liabilities.

The 2016 amounts have been restated to reflect the other postemployment benefit (OPEB) activity not previously obtained for years 2015 and 2016. The Town obtained the necessary updated actuarial valuation for its OPEB liability during 2017. As such, the prior year balances have been restated to reflect this information.

	<u>2017</u>	<u>2016</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 1,587,255	\$ 1,263,931
Operating grants and contributions.....	8,546,664	8,837,464
Capital grants and contributions.....	62,593	230,725
<b>General revenues:</b>		
Real estate and personal property taxes.....	10,689,700	10,154,749
Motor vehicle and other excise taxes.....	831,560	790,953
Penalties and interest on taxes.....	173,045	136,786
Payments in lieu of taxes.....	8,751	4,188
Grants and contributions not restricted to specific programs.....	1,665,459	1,562,966
Unrestricted investment income.....	35,146	107,880
Miscellaneous.....	38,379	247,620
<b>Total revenues.....</b>	<b><u>23,638,552</u></b>	<b><u>23,337,262</u></b>
<b>Expenses:</b>		
General government.....	1,661,302	1,424,361
Public safety.....	4,458,212	3,613,858
Education.....	15,919,676	14,342,526
Public works.....	2,630,229	2,281,951
Airport.....	477,135	454,326
Human services.....	350,547	350,005
Culture and recreation.....	601,517	493,246
Interest.....	292,734	113,723
<b>Total expenses.....</b>	<b><u>26,391,352</u></b>	<b><u>23,073,996</u></b>
<b>Change in net position.....</b>	<b>(2,752,800)</b>	<b>263,266</b>
<b>Net position - beginning, as restated.....</b>	<b><u>14,946,003</u></b>	<b><u>14,682,737</u></b>
<b>Net position - ending.....</b>	<b><u><u>\$ 12,193,203</u></u></b>	<b><u><u>\$ 14,946,003</u></u></b>

Governmental net position decreased during 2017 by approximately \$2.8 million as compared to an increase of \$263,000 in 2016. The change is mainly attributable to the recording of pension and OPEB expenses in excess of the previous year amounts.

**Business-type Activities**

**Water Fund**

	<u>2017</u>	<u>2016</u> (As Restated)
<b>Assets:</b>		
Current assets.....	\$ 897,147	\$ 1,065,777
Capital assets.....	<u>5,775,308</u>	<u>5,394,680</u>
<b>Total assets.....</b>	<b><u>6,672,455</u></b>	<b><u>6,460,457</u></b>
<b>Deferred outflows of resources.....</b>	<b><u>129,443</u></b>	<b><u>129,768</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	46,900	24,426
Non-current liabilities (excluding debt).....	<u>776,258</u>	<u>692,195</u>
<b>Total liabilities.....</b>	<b><u>823,158</u></b>	<b><u>716,621</u></b>
<b>Deferred inflows of resources.....</b>	<b><u>16,894</u></b>	<b><u>-</u></b>
<b>Net Position:</b>		
Net investment in capital assets.....	5,775,308	5,394,680
Unrestricted.....	<u>186,538</u>	<u>478,924</u>
<b>Total net position.....</b>	<b><u>\$ 5,961,846</u></b>	<b><u>\$ 5,873,604</u></b>

Water fund net position of \$5.8 million represents investments in capital assets net of related debt. The remaining \$187,000 is available to be used for the ongoing operation of the Town's Water Department.

As shown in the following table, there was an increase of approximately \$88,000 in net position compared to an increase of approximately \$105,000 in the prior year.

	<u>2017</u>	<u>2016</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 897,929	\$ 803,096
<b>General revenues:</b>		
Investment income.....	<u>2,893</u>	<u>3,388</u>
<b>Total revenues.....</b>	<b><u>900,822</u></b>	<b><u>806,484</u></b>
<b>Expenses:</b>		
Water.....	<u>812,580</u>	<u>700,987</u>
<b>Change in net position.....</b>	<b>88,242</b>	<b>105,497</b>
<b>Net position - beginning, as restated.....</b>	<b><u>5,873,604</u></b>	<b><u>5,768,107</u></b>
<b>Net position - ending.....</b>	<b><u>\$ 5,961,846</u></b>	<b><u>\$ 5,873,604</u></b>

**Sewer Fund**

	<u>2017</u>	<u>2016</u> (As Restated)
<b>Assets:</b>		
Current assets.....	\$ 397,307	\$ 404,793
Noncurrent assets (excluding capital).....	3,295	6,570
Capital assets.....	<u>1,995,712</u>	<u>2,131,299</u>
<b>Total assets.....</b>	<b><u>2,396,314</u></b>	<b><u>2,542,662</u></b>
<b>Deferred outflows of resources.....</b>	<b><u>89,477</u></b>	<b><u>89,701</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	28,225	23,651
Non-current liabilities (excluding debt).....	514,976	466,559
Current debt.....	236,934	262,555
Noncurrent debt.....	<u>591,086</u>	<u>648,020</u>
<b>Total liabilities.....</b>	<b><u>1,371,221</u></b>	<b><u>1,400,785</u></b>
<b>Deferred inflows of resources.....</b>	<b><u>11,678</u></b>	<b><u>-</u></b>
<b>Net Position:</b>		
Net investment in capital assets.....	1,174,262	1,230,297
Unrestricted.....	<u>(71,370)</u>	<u>1,281</u>
<b>Total net position.....</b>	<b><u>\$ 1,102,892</u></b>	<b><u>\$ 1,231,578</u></b>

Sewer fund net position of \$1.2 million represent investments in capital assets net of related debt. The unrestricted balance of net position resulted in a deficit of \$71,000.

As shown in the following table, there was a decrease of approximately \$129,000 in net position compared to an increase of approximately \$23,000 in the prior year, mainly due to increased operating costs in the current year.

	<u>2017</u>	<u>2016</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 626,485	\$ 638,758
Operating grants and contributions.....	1,297	1,609
<b>General revenues:</b>		
Investment income.....	<u>688</u>	<u>33</u>
<b>Total revenues.....</b>	<b><u>628,470</u></b>	<b><u>640,400</u></b>
<b>Expenses:</b>		
Sewer.....	<u>757,156</u>	<u>617,678</u>
<b>Change in net position.....</b>	<b>(128,686)</b>	<b>22,722</b>
<b>Net position - beginning, as restated.....</b>	<b><u>1,231,578</u></b>	<b><u>1,208,856</u></b>
<b>Net position - ending.....</b>	<b><u>\$ 1,102,892</u></b>	<b><u>\$ 1,231,578</u></b>

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

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

**Governmental funds.** The focus of the Town of Orange's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Orange'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 approximately \$3.1 million, an increase of approximately \$229,000 from the prior year.

The general fund is the chief operating fund. At the end of the current year the unassigned fund balance of the general fund was \$1.6 million, while total fund balance was \$1.8 million.

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

The Town of Orange adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Actual revenues were higher than budgeted amounts by approximately \$259,000 or 1%. Actual expenditures, including carryovers, were less than budgeted amounts by approximately \$553,000 or 3%.

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

In conjunction with the operating budget, the Town annually prepares capital budgets for the upcoming year. Major capital additions during the year relate to infrastructure and Town building upgrades. Total additions for the Governmental and Business-type Activities amounted to \$911,000 and \$529,000, respectively.

Outstanding long-term debt of the general government, as of June 30, 2017, totaled \$2.3 million, of which approximately \$1.2 million is related to the construction of a new fire station, \$827,000 is for energy conservation, \$124,000 is for the landfill, \$120,000 is a state house note for equipment, and \$13,000 is for various other governmental projects. In addition, the Sewer enterprise fund has approximately \$648,000 of outstanding long-term debt related to funding various sewer projects.

Please refer to the notes to the 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 Orange'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 Office of the Town Accountant at 6 Prospect Street, Orange, MA 01364.

# ***Basic Financial Statements***

**STATEMENT OF NET POSITION**

JUNE 30, 2017

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents..... \$	4,302,748	\$ 911,831	\$ 5,214,579
Investments.....	892,946	-	892,946
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	135,223	-	135,223
Tax liens.....	1,010,607	-	1,010,607
Motor vehicle and other excise taxes.....	141,929	-	141,929
User fees.....	-	379,348	379,348
Departmental and other.....	543,367	-	543,367
Special assessments.....	36,613	-	36,613
Intergovernmental.....	296,415	3,275	299,690
Working capital deposit.....	29,135	-	29,135
Tax foreclosures.....	190,678	-	190,678
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	-	3,295	3,295
Loans.....	165,137	-	165,137
Capital assets, net of accumulated depreciation.....	24,484,295	7,771,020	32,255,315
<b>TOTAL ASSETS.....</b>	<b>32,229,093</b>	<b>9,068,769</b>	<b>41,297,862</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions.....	1,807,131	218,920	2,026,051
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	371,082	65,807	436,889
Accrued payroll.....	562,850	5,775	568,625
Health claims payable.....	9,190	-	9,190
Payroll withholdings.....	55,623	-	55,623
Compensated absences.....	79,225	3,543	82,768
Notes payable.....	1,143,625	180,000	1,323,625
Bonds payable.....	176,354	56,934	233,288
<b>NONCURRENT:</b>			
Other postemployment benefits.....	9,946,835	425,973	10,372,808
Bonds payable.....	2,119,866	591,086	2,710,952
Net pension liability.....	7,142,518	865,261	8,007,779
<b>TOTAL LIABILITIES.....</b>	<b>21,607,168</b>	<b>2,194,379</b>	<b>23,801,547</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions.....	235,853	28,572	264,425
<b>NET POSITION</b>			
Net investment in capital assets.....	21,415,247	6,949,570	28,364,817
Restricted for:			
Loans.....	165,137	-	165,137
Permanent funds:			
Expendable.....	319,955	-	319,955
Nonexpendable.....	611,248	-	611,248
Gifts and grants.....	214,468	-	214,468
Unrestricted.....	(10,532,852)	115,168	(10,417,684)
<b>TOTAL NET POSITION.....</b>	<b>\$ 12,193,203</b>	<b>\$ 7,064,738</b>	<b>\$ 19,257,941</b>

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.....	\$ 1,661,302	\$ 288,109	\$ 28,495	\$ -	\$ (1,344,698)
Public safety.....	4,458,212	820,217	71,083	3,951	(3,562,961)
Education.....	15,919,676	15,454	8,034,774	-	(7,869,448)
Public works.....	2,630,229	339,666	183,354	9,097	(2,098,112)
Airport.....	477,135	91,559	2,753	49,545	(333,278)
Human services.....	350,547	30,211	165,430	-	(154,906)
Culture and recreation.....	601,517	2,039	60,775	-	(538,703)
Interest.....	292,734	-	-	-	(292,734)
Total Governmental Activities.....	<u>26,391,352</u>	<u>1,587,255</u>	<u>8,546,664</u>	<u>62,593</u>	<b>(16,194,840)</b>
<i>Business-Type Activities:</i>					
Water.....	812,580	897,929	-	-	85,349
Sewer.....	<u>757,156</u>	<u>626,485</u>	<u>1,297</u>	-	<u>(129,374)</u>
Total Business-Type Activities.....	<u>1,569,736</u>	<u>1,524,414</u>	<u>1,297</u>	-	<b>(44,025)</b>
Total Primary Government.....	<u>\$ 27,961,088</u>	<u>\$ 3,111,669</u>	<u>\$ 8,547,961</u>	<u>\$ 62,593</u>	<b>\$ (16,238,865)</b>

See notes to basic financial statements.

(Continued)



**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page.....	\$ <b>(16,194,840)</b>	\$ <b>(44,025)</b>	\$ <b>(16,238,865)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	10,103,618	-	10,103,618
Tax liens.....	586,082	-	586,082
Motor vehicle and other excise taxes.....	831,560	-	831,560
Penalties and interest on taxes.....	173,045	-	173,045
Payments in lieu of taxes.....	8,751	-	8,751
Grants and contributions not restricted to specific programs.....	1,665,459	-	1,665,459
Unrestricted investment income.....	35,146	3,581	38,727
Miscellaneous.....	38,379	-	38,379
Total general revenues.....	<u>13,442,040</u>	<u>3,581</u>	<u>13,445,621</u>
Change in net position.....	(2,752,800)	(40,444)	(2,793,244)
<i>Net Position:</i>			
Beginning of year, as restated.....	<u>14,946,003</u>	<u>7,105,182</u>	<u>22,051,185</u>
End of year.....	\$ <u><u>12,193,203</u></u>	\$ <u><u>7,064,738</u></u>	\$ <u><u>19,257,941</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 2,559,366	\$ 1,677,099	\$ 4,236,465
Investments.....	-	892,946	892,946
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	135,223	-	135,223
Tax liens.....	1,010,607	-	1,010,607
Motor vehicle and other excise taxes.....	141,929	-	141,929
Departmental and other.....	543,367	-	543,367
Special assessments.....	27,608	9,005	36,613
Intergovernmental.....	1,942	294,473	296,415
Loans.....	-	165,137	165,137
Tax foreclosures.....	190,678	-	190,678
<b>TOTAL ASSETS.....</b>	<b>\$ 4,610,720</b>	<b>\$ 3,038,660</b>	<b>\$ 7,649,380</b>
<b>LIABILITIES</b>			
Warrants payable.....	\$ 341,745	\$ 27,006	\$ 368,751
Accrued payroll.....	442,999	119,851	562,850
Payroll withholdings.....	55,623	-	55,623
Notes payable.....	-	1,143,625	1,143,625
<b>TOTAL LIABILITIES.....</b>	<b>840,367</b>	<b>1,290,482</b>	<b>2,130,849</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues.....	1,990,087	391,625	2,381,712
<b>FUND BALANCES</b>			
Nonspendable.....	-	611,248	611,248
Restricted.....	-	1,867,418	1,867,418
Assigned.....	194,392	-	194,392
Unassigned.....	1,585,874	(1,122,113)	463,761
<b>TOTAL FUND BALANCES.....</b>	<b>1,780,266</b>	<b>1,356,553</b>	<b>3,136,819</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....</b>	<b>\$ 4,610,720</b>	<b>\$ 3,038,660</b>	<b>\$ 7,649,380</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2017

Total governmental fund balances.....	\$	3,136,819
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		24,484,295
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		2,381,712
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.....		1,571,278
Internal service funds are used by management to account for self-insured dental insurance activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		83,897
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(2,296,220)	
Compensated absences.....	(79,225)	
Other postemployment benefits obligation.....	(9,946,835)	
Pension liability.....	<u>(7,142,518)</u>	
Net effect of reporting long-term liabilities.....		<u>(19,464,798)</u>
Net position of governmental activities.....	\$	<u><u>12,193,203</u></u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Real estate and personal property taxes, net of tax refunds.....	\$ 10,440,544	\$ -	\$ 10,440,544
Tax liens.....	142,882	-	142,882
Motor vehicle and other excise taxes.....	788,615	-	788,615
Charges for services.....	133,458	18,807	152,265
Penalties and interest on taxes.....	173,045	-	173,045
Payments in lieu of taxes.....	8,751	-	8,751
Intergovernmental.....	8,409,444	1,917,644	10,327,088
Departmental and other.....	897,403	370,791	1,268,194
Contributions.....	-	143,908	143,908
Investment income.....	9,078	26,068	35,146
Miscellaneous.....	38,379	-	38,379
<b>TOTAL REVENUES.....</b>	<b>21,041,599</b>	<b>2,477,218</b>	<b>23,518,817</b>
<b>EXPENDITURES:</b>			
Current:			
General government.....	864,914	150,197	1,015,111
Public safety.....	2,311,369	526,681	2,838,050
Education.....	10,454,988	1,491,814	11,946,802
Public works.....	1,171,191	419,389	1,590,580
Airport.....	126,743	52,298	179,041
Human services.....	217,154	50,020	267,174
Culture and recreation.....	288,523	66,274	354,797
Pension benefits.....	2,110,922	-	2,110,922
Employee benefits.....	1,986,780	-	1,986,780
State and county charges.....	533,851	-	533,851
Debt service:			
Principal.....	173,829	-	173,829
Interest.....	292,734	-	292,734
<b>TOTAL EXPENDITURES.....</b>	<b>20,532,998</b>	<b>2,756,673</b>	<b>23,289,671</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>508,601</b>	<b>(279,455)</b>	<b>229,146</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in.....	55,321	138,968	194,289
Transfers out.....	(138,618)	(55,671)	(194,289)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(83,297)</b>	<b>83,297</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>425,304</b>	<b>(196,158)</b>	<b>229,146</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>1,354,962</b>	<b>1,552,711</b>	<b>2,907,673</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,780,266</b>	<b>\$ 1,356,553</b>	<b>\$ 3,136,819</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.....	\$	229,146
<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.....	911,045	
Depreciation expense.....	<u>(1,802,790)</u>	
Net effect of reporting capital assets.....		(891,745)
<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>		
		119,735
<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>		
Debt service principal payments.....	<u>173,829</u>	
Net effect of reporting long-term debt.....		173,829
<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.....	(7,180)	
Net change in other postemployment benefits obligation.....	(1,683,362)	
Net change of deferred outflow/(inflow) related to pensions.....	(240,382)	
Net change in pension liability.....	<u>(475,726)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(2,406,650)
<p>Internal service funds are used by management to account for self-insured dental insurance activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>22,885</u>
Change in net position of governmental activities.....	\$	<u><u>(2,752,800)</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Total	
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 704,533	\$ 207,298	\$ 911,831	\$ 66,283
Receivables, net of allowance for uncollectibles:				
User fees.....	192,614	186,734	379,348	-
Intergovernmental.....	-	3,275	3,275	-
Working capital deposit.....	-	-	-	29,135
Total current assets.....	<u>897,147</u>	<u>397,307</u>	<u>1,294,454</u>	<u>95,418</u>
<b>NONCURRENT:</b>				
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	-	3,295	3,295	-
Capital assets, net of accumulated depreciation.....	<u>5,775,308</u>	<u>1,995,712</u>	<u>7,771,020</u>	<u>-</u>
Total noncurrent assets.....	<u>5,775,308</u>	<u>1,999,007</u>	<u>7,774,315</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<u><b>6,672,455</b></u>	<u><b>2,396,314</b></u>	<u><b>9,068,769</b></u>	<u><b>95,418</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources related to pensions.....	<u>129,443</u>	<u>89,477</u>	<u>218,920</u>	<u>-</u>
<b>LIABILITIES</b>				
<b>CURRENT:</b>				
Warrants payable.....	44,007	21,800	65,807	2,331
Accrued payroll.....	2,893	2,882	5,775	-
Dental claims payable.....	-	-	-	9,190
Compensated absences.....	-	3,543	3,543	-
Notes payable.....	-	180,000	180,000	-
Bonds payable.....	-	56,934	56,934	-
Total current liabilities.....	<u>46,900</u>	<u>265,159</u>	<u>312,059</u>	<u>11,521</u>
<b>NONCURRENT:</b>				
Other postemployment benefits.....	264,646	161,327	425,973	-
Bonds payable.....	-	591,086	591,086	-
Net pension liability.....	<u>511,612</u>	<u>353,649</u>	<u>865,261</u>	<u>-</u>
Total noncurrent liabilities.....	<u>776,258</u>	<u>1,106,062</u>	<u>1,882,320</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<u><b>823,158</b></u>	<u><b>1,371,221</b></u>	<u><b>2,194,379</b></u>	<u><b>11,521</b></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources related to pensions.....	<u>16,894</u>	<u>11,678</u>	<u>28,572</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets.....	5,775,308	1,174,262	6,949,570	-
Unrestricted.....	<u>186,538</u>	<u>(71,370)</u>	<u>115,168</u>	<u>83,897</u>
<b>TOTAL NET POSITION.....</b>	<u><b>\$ 5,961,846</b></u>	<u><b>\$ 1,102,892</b></u>	<u><b>\$ 7,064,738</b></u>	<u><b>\$ 83,897</b></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Total	
<b>OPERATING REVENUES:</b>				
Employer and employee contributions.....	-	-	-	45,224
Charges for services.....	\$ 897,929	\$ 626,485	\$ 1,524,414	\$ -
<b>TOTAL OPERATING REVENUES.....</b>	<b>897,929</b>	<b>626,485</b>	<b>1,524,414</b>	<b>45,224</b>
<b>OPERATING EXPENSES:</b>				
Cost of services and administration.....	626,072	595,542	1,221,614	-
Utilities.....	20,995	-	20,995	-
Repairs and maintenance.....	16,745	-	16,745	-
Depreciation.....	148,768	135,587	284,355	-
Employee benefits.....	-	-	-	22,339
<b>TOTAL OPERATING EXPENSES.....</b>	<b>812,580</b>	<b>731,129</b>	<b>1,543,709</b>	<b>22,339</b>
<b>OPERATING INCOME.....</b>	<b>85,349</b>	<b>(104,644)</b>	<b>(19,295)</b>	<b>22,885</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income.....	2,893	688	3,581	-
Interest expense.....	-	(26,027)	(26,027)	-
MWPAT interest subsidy.....	-	1,297	1,297	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>2,893</b>	<b>(24,042)</b>	<b>(21,149)</b>	<b>-</b>
<b>CHANGE IN NET POSITION.....</b>	<b>88,242</b>	<b>(128,686)</b>	<b>(40,444)</b>	<b>22,885</b>
<b>NET POSITION AT BEGINNING OF YEAR, AS RESTATED.....</b>	<b>5,873,604</b>	<b>1,231,578</b>	<b>7,105,182</b>	<b>61,012</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 5,961,846</b>	<b>\$ 1,102,892</b>	<b>\$ 7,064,738</b>	<b>\$ 83,897</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers and users.....	\$ 888,514	\$ 650,038	\$ 1,538,552	\$ -
Receipts from interfund services provided.....	-	-	-	45,224
Payments to vendors.....	(312,519)	(347,895)	(660,414)	-
Payments to employees.....	(227,537)	(182,754)	(410,291)	-
Payments for interfund services used.....	-	-	-	(18,244)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>348,458</b>	<b>119,389</b>	<b>467,847</b>	<b>26,980</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from the issuance of bonds and notes.....	-	180,000	180,000	-
Acquisition and construction of capital assets.....	(529,396)	-	(529,396)	-
Principal payments on bonds and notes.....	-	(262,555)	(262,555)	-
Interest expense.....	-	(24,730)	(24,730)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(529,396)</b>	<b>(107,285)</b>	<b>(636,681)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment income.....	2,893	688	3,581	-
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>(178,045)</b>	<b>12,792</b>	<b>(165,253)</b>	<b>26,980</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>882,578</b>	<b>194,506</b>	<b>1,077,084</b>	<b>39,303</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 704,533</b>	<b>\$ 207,298</b>	<b>\$ 911,831</b>	<b>\$ 66,283</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</b>				
Operating income.....	\$ 85,349	\$ (104,644)	\$ (19,295)	\$ 22,885
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation.....	148,768	135,587	284,355	-
Deferred (outflows)/inflows related to pensions.....	17,219	11,902	29,121	-
Changes in assets and liabilities:				
User fees.....	(9,415)	20,550	11,135	-
Intergovernmental receivables.....	-	3,003	3,003	-
Working capital deposit.....	-	-	-	(100)
Warrants payable.....	22,441	3,065	25,506	2,331
Accrued payroll.....	33	546	579	-
Health claims payable.....	-	-	-	1,864
Accrued compensated absences.....	-	963	963	-
Net pension liability.....	34,075	23,555	57,630	-
Other postemployment benefits.....	49,988	24,862	74,850	-
Total adjustments.....	263,109	224,033	487,142	4,095
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 348,458</b>	<b>\$ 119,389</b>	<b>\$ 467,847</b>	<b>\$ 26,980</b>

See notes to basic financial statements.



**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$ 51,545	\$ 5,059
<b>LIABILITIES</b>		
Liabilities due depositors.....	-	5,059
<b>NET POSITION</b>		
Held in trust for private purposes.....	\$ 51,545	\$ -

See notes to basic financial statements.

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

JUNE 30, 2017

	Private Purpose Trust Funds
<u>ADDITIONS:</u>	
Contributions:	
Private donations.....	\$ <u>1,663</u>
NET POSITION AT BEGINNING OF YEAR.....	<u>49,882</u>
NET POSITION AT END OF YEAR.....	\$ <u><u>51,545</u></u>

See notes to basic financial statements.

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

The accompanying basic financial statements of the Town of Orange, 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 3 member 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.

***Joint Ventures***

The Town is a member of the Ralph C. Mahar School District (the District) that provides for the education for grade levels 7-12 for the Town's students. 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 \$3,802,842 and its shares of the debt service expense totaled \$194,440.

The Town is also a member of the Franklin County Technical High School that serves the members' students seeking an education in academic, technical and agriculture studies. The members' share in the operations of the Franklin County Technical High School and each member is responsible for its proportionate share of the operational and capital cost of the Franklin County Technical High School, which are paid in the form of assessments. The Town does not have an equity interest in the Franklin County Technical High School and the 2017 assessment was \$543,103.

**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*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

***Fund Financial Statements***

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual 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 of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

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

Internal service funds and 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. Exceptions are charges between the general fund and the water enterprise fund. 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, other postemployment benefits obligations, and 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 non-major governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *non-major governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principle ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for the water activities.

The *sewer enterprise fund* is used to account for the sewer activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to the self-insured employee dental program.

**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, when applicable:

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.

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

#### D. Cash and Investments

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

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

#### E. Fair Value Measurements

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

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

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

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

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

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – 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 the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

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

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

Real estate tax liens are processed on delinquent properties and are recorded as receivables in the year they are processed.

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

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

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

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.

***Water and Sewer Fees***

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer fees and liens are recorded as receivables in the year of the levy.

Since the receivables are subject to the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

***Departmental and Other***

Departmental and other receivables are recorded as receivables in the year earned. The allowance for 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 of the governmental funds and the water enterprise fund 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 and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$25,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.



Capital assets 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.....	20-40
Machinery and equipment.....	5-15
Infrastructure.....	20-50
Vehicles.....	5-10

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 pension in this category.

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

*Governmental Fund Financial Statements*

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

J. Unavailable revenue

*Fund Financial Statements*

Unavailable revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

### K. Interfund Receivables and Payables

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

#### *Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances".

#### *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.

### L. Interfund Transfers

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

#### *Government-Wide Financial Statements*

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

### M. 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:

"Loans" represents the Town's Community Development loans receivable balances.

"Permanent funds - expendable" represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allow the trustee to authorize spending of the realized investment earnings that support governmental programs.

"Permanent funds - nonexpendable" represents the endowment portion of donor restricted trusts that support governmental programs.

"Gifts and grants" represents amounts held for school and other Town grants, and for gift funds that have restrictions placed on assets from outside parties.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and

unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### *Fund Financial Statements (Fund Balances)*

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

The governmental fund balance classifications are as follows:

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

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

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

“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.

#### N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Franklin Regional Retirement System and the Massachusetts Teachers Retirement System and additions to/deductions from the Systems fiduciary net position have been determined on the same basis as they are reported by the Systems. 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.

#### O. Long-term debt

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

Long-term debt is reported as liabilities in the government-wide and proprietary fund 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.

P. Investment Income

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

Q. Compensated Absences

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

*Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation leave is reported as a liability and expensed as incurred.

*Governmental Fund Financial Statements*

Vested or accumulated vacation leave, which will be liquidated with expendable available financial resources, is reported as an expenditure and fund liability.

R. 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.

S. 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 of Orange'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 \$5,208,435 and the bank balance totaled \$5,340,728. Of the bank balance, \$785,359 was covered by Federal Depository Insurance, \$1,614,876 was covered by Depositors Insurance Fund, \$2,442,391 was covered by Share Insurance Fund, \$383,163 was covered by the Securities Investor Protection Corporation, \$25,000 was collateralized and \$89,939 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2017, the Town of Orange had the following investments:

Investment Type	<u>Fair Value</u>	<u>Maturity 1-5 Years</u>
<u>Debt Securities:</u>		
U.S. Treasury Notes.....	\$ 119,267	\$ 119,267
U.S. Government Securities.....	248,044	248,044
Corporate Bonds.....	<u>134,837</u>	<u>134,837</u>
Total Debt Securities.....	502,148	<u>\$ 502,148</u>
<u>Other Investments:</u>		
Equity Securities.....	390,798	
Money Market Mutual Funds.....	<u>62,748</u>	
Total Investments.....	<u>\$ 955,694</u>	

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town’s investments of \$119,267 in U.S. Treasury Notes, \$248,044 in U.S. Governmental Securities, \$134,837 in corporate bonds, and \$390,798 in equity securities all have custodial credit risk exposure because the related securities are uninsured, unregistered and held by the counterparty.

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.

The Town’s investments are rated as follows by Moody’s Investor’s Services:

Related Debt Investments	Fair Value	Quality Ratings			
		Aaa	A2	A3	Baa2
U.S Treasury Notes.....	\$ 119,267	\$ 119,267	\$ -	\$ -	\$ -
U.S Government Securities.....	248,044	248,044	-	-	-
Corporate Bonds.....	134,837	-	34,989	59,849	39,999
Fair Value.....	\$ 502,148	\$ 367,311	\$ 34,989	\$ 59,849	\$ 39,999

Fair Value of Investments

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

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

The Town has the following recurring fair value measurement as of June 30, 2017:

Investment Type	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value level:</b>				
<u>Debt Securities:</u>				
United States Treasury.....	\$ 119,267	\$ 119,267	\$ -	\$ -
Federal Home Loan Mortgage Corporation.....	248,044	248,044	-	-
Corporate Bonds.....	134,837	-	134,837	-
Total debt securities.....	502,148	367,311	134,837	-
<u>Other investments:</u>				
Equity Securities.....	390,798	390,798	-	-
Money Market Mutual Funds.....	62,748	62,748	-	-
Total investments measured at fair value.....	\$ 955,694	\$ 820,857	\$ 134,837	\$ -

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

**NOTE 3 – RECEIVABLES**

At June 30, 2017, receivables for the governmental funds and the internal service fund 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.....	\$ 159,566	\$ (24,343)	\$ 135,223
Tax liens.....	1,010,607	-	1,010,607
Motor vehicle and other excise taxes.....	160,783	(18,854)	141,929
Departmental and other.....	1,113,891	(570,524)	543,367
Special assessments.....	36,613	-	36,613
Intergovernmental.....	296,415	-	296,415
Loans.....	165,137	-	165,137
Total.....	<u>\$ 2,943,012</u>	<u>\$ (613,721)</u>	<u>\$ 2,329,291</u>

At June 30, 2017, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User fees.....	\$ 379,348	-	\$ 379,348
Intergovernmental.....	6,570	-	6,570
Total.....	<u>\$ 385,918</u>	<u>\$ -</u>	<u>\$ 385,918</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *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.....	\$ 75,898	\$ -	\$ 75,898
Tax liens.....	1,010,607	-	1,010,607
Tax foreclosures.....	190,678	-	190,678
Motor vehicle and other excise taxes.....	141,929	-	141,929
Departmental and other.....	543,367	-	543,367
Special assessments.....	27,608	9,005	36,613
Intergovernmental.....	-	217,483	217,483
Loans.....	-	165,137	165,137
Total.....	<u>\$ 1,990,087</u>	<u>\$ 391,625</u>	<u>\$ 2,381,712</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.....	\$ 2,253,056	\$ -	\$ -	\$ 2,253,056
<u>Capital assets being depreciated:</u>				
Buildings.....	16,402,773	-	-	16,402,773
Machinery and equipment.....	5,583,690	133,172	-	5,716,862
Infrastructure.....	35,993,307	395,780	-	36,389,087
Vehicles.....	727,154	382,093	-	1,109,247
Total capital assets being depreciated.....	58,706,924	911,045	-	59,617,969
<u>Less accumulated depreciation for:</u>				
Buildings.....	(8,797,431)	(422,402)	-	(9,219,833)
Machinery and equipment.....	(4,577,824)	(156,543)	-	(4,734,367)
Infrastructure.....	(21,312,328)	(1,064,949)	-	(22,377,277)
Vehicles.....	(896,357)	(158,896)	-	(1,055,253)
Total accumulated depreciation.....	(35,583,940)	(1,802,790)	-	(37,386,730)
Total capital assets being depreciated, net.....	23,122,984	(891,745)	-	22,231,239
Total governmental activities capital assets, net.....	\$ 25,376,040	\$ (891,745)	\$ -	\$ 24,484,295

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 53,522	\$ -	\$ -	\$ 53,522
<u>Capital assets being depreciated:</u>				
Buildings.....	331,167	-	-	331,167
Machinery and equipment.....	665,781	-	-	665,781
Infrastructure.....	7,923,877	529,396	-	8,453,273
Vehicles.....	126,087	-	-	126,087
Total capital assets being depreciated.....	9,046,912	529,396	-	9,576,308
<u>Less accumulated depreciation for:</u>				
Buildings.....	(127,207)	(4,560)	-	(131,767)
Machinery and equipment.....	(490,044)	(21,112)	-	(511,156)
Infrastructure.....	(2,980,365)	(117,492)	-	(3,097,857)
Vehicles.....	(108,138)	(5,604)	-	(113,742)
Total accumulated depreciation.....	(3,705,754)	(148,768)	-	(3,854,522)
Total capital assets being depreciated, net.....	5,341,158	380,628	-	5,721,786
Total water activities capital assets, net.....	\$ 5,394,680	\$ 380,628	\$ -	\$ 5,775,308

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Sewer Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 24,741	\$ -	\$ -	\$ 24,741
Construction in progress.....	75,000	-	-	75,000
Total capital assets not being depreciated.....	99,741	-	-	99,741
<u>Capital assets being depreciated:</u>				
Buildings.....	1,289,311	-	-	1,289,311
Machinery and equipment.....	407,531	-	-	407,531
Infrastructure.....	3,046,503	-	-	3,046,503
Vehicles.....	75,367	-	-	75,367
Total capital assets being depreciated.....	4,818,712	-	-	4,818,712
<u>Less accumulated depreciation for:</u>				
Buildings.....	(1,368,248)	(46,278)	-	(1,414,526)
Machinery and equipment.....	(317,018)	(13,767)	-	(330,785)
Infrastructure.....	(1,042,771)	(67,417)	-	(1,110,188)
Vehicles.....	(59,117)	(8,125)	-	(67,242)
Total accumulated depreciation.....	(2,787,154)	(135,587)	-	(2,922,741)
Total capital assets being depreciated, net.....	2,031,558	(135,587)	-	1,895,971
Total sewer activities capital assets, net.....	\$ 2,131,299	\$ (135,587)	\$ -	\$ 1,995,712

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

<b>Governmental Activities:</b>	
General government.....	\$ 144,843
Public safety.....	208,667
Education.....	281,702
Public works.....	901,838
Airport.....	258,781
Human services.....	3,080
Culture and recreation.....	<u>3,879</u>
 Total depreciation expense - governmental activities.....	 \$ <u>1,802,790</u>
 <b>Business-Type Activities:</b>	
Water.....	\$ 148,768
Sewer.....	<u>135,587</u>
 Total depreciation expense - business-type activities.....	 \$ <u>284,355</u>

**NOTE 5 – INTERFUND TRANSFERS**

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

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 138,618	\$ 138,618 (1)
Nonmajor Governmental Funds.....	<u>55,321</u>	<u>350</u>	<u>55,671 (2)</u>
 Total.....	 \$ <u>55,321</u>	 \$ <u>138,968</u>	 \$ <u>194,289</u>

- (1) Represents amounts transferred out of the general fund to various special revenue funds and to the capital projects fund.
- (2) Represent amounts transferred into the general fund form various special revenue funds as well as a transfer between nonmajor capital project 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, state aid, or tax anticipation notes (RANS, SANS 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 and the water enterprise fund, respectively.

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
<b>Governmental</b>							
BAN	School Roof.....	0.60	7/22/2016	\$ 475,000	\$ -	\$ 475,000	\$ -
BAN	School Roof.....	0.84	7/21/2017	-	415,625	-	415,625
BAN	Emergency Borrowing.....	0.60	7/22/2016	300,000	-	300,000	-
BAN	Emergency Borrowing.....	0.84	7/21/2017	-	225,000	-	225,000
BAN	Butterfield Park Renovations.....	0.60	7/22/2016	115,000	-	115,000	-
BAN	Butterfield Park Renovations.....	0.84	7/21/2017	-	100,000	-	100,000
BAN	Police Station Renovations.....	0.60	7/22/2016	135,000	-	135,000	-
BAN	Police Station Renovations.....	0.84	7/21/2017	-	120,000	-	120,000
BAN	Ambulance.....	0.84	7/21/2017	-	283,000	-	283,000
Total Governmental Funds.....				<u>1,025,000</u>	<u>1,143,625</u>	<u>1,025,000</u>	<u>1,143,625</u>
<b>Enterprise</b>							
BAN	WWTP Sewer Main.....	0.60	7/22/2016	205,000	-	205,000	-
BAN	WWTP Sewer Main.....	0.84	7/21/2017	-	180,000	-	180,000
Total.....				<u>\$ 1,230,000</u>	<u>\$ 1,323,625</u>	<u>\$ 1,230,000</u>	<u>\$ 1,323,625</u>

Of the BANS outstanding, \$263,407 was paid down and the remaining \$1,060,218 was rolled into a new BAN with an interest rate of 1.30% and a maturity date of July 20, 2018.

**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:

**Bonds Payable Schedule – Governmental Funds**

Project	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
Community Septic Management Program.....	4.0 - 5.0	\$ 19,239	\$ -	\$ 6,413	\$ 12,826
Fire Station Bond.....	4.00	1,231,923	-	19,663	1,212,260
Energy Conservation Bond.....	4.00	870,316	-	43,467	826,849
Capping & Closing Landfill Refunding.....	2.20	188,571	-	64,286	124,285
State House Note - Equipment.....	2.20	160,000	-	40,000	120,000
Total.....		<u>\$ 2,470,049</u>	<u>\$ -</u>	<u>\$ 173,829</u>	<u>\$ 2,296,220</u>

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

Year	Principal	Interest	Total
2018.....	\$ 176,354	\$ 86,005	\$ 262,359
2019.....	174,695	80,858	255,553
2020.....	111,013	77,087	188,100
2021.....	73,854	73,366	147,220
2022.....	76,808	70,412	147,220
(1) 2023 - 2027.....	432,656	303,443	736,099
2028 - 2032.....	448,053	209,711	657,764
2033 - 2037.....	199,476	145,224	344,700
2038 - 2042.....	242,692	102,008	344,700
2043 - 2047.....	295,272	49,428	344,700
2048.....	65,347	1,307	66,654
Total Governmental.....	<u>\$ 2,296,220</u>	<u>\$ 1,198,849</u>	<u>\$ 3,495,069</u>

(1) The Fire Station bond has significant fluctuations within both principal and interest payments over the life of the loan.

**Bonds Payable Schedule – Sewer Enterprise Fund**

Project	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
MCWT Sewer Facility Plan.....	4.0 - 5.0	\$ 37,000	\$ -	\$ 12,000	\$ 25,000
General Obligation Sewer Bond.....	4.25	311,792	-	9,744	302,048
MCWT Wastewater Management Plan.....	2.00	306,604	-	15,097	291,507
Sewer Vehicle.....	1.00	18,750	-	10,000	8,750
Brookside Sewer Project Refunding.....	2.20	31,429	-	10,714	20,715
Total.....		<u>\$ 705,575</u>	<u>\$ -</u>	<u>\$ 57,555</u>	<u>\$ 648,020</u>

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

Year	Principal	Interest	Total
2018.....	\$ 56,934	\$ 19,763	\$ 76,697
2019 .....	48,205	18,105	66,310
2020.....	25,847	17,054	42,901
2021.....	26,197	16,314	42,511
2022.....	26,554	15,567	42,121
2023 - 2027.....	138,414	66,372	204,786
2028 - 2032.....	148,594	46,551	195,145
2033 - 2037.....	70,107	29,198	99,305
2038 - 2042.....	48,720	18,632	67,352
2043 - 2047.....	48,720	8,280	57,000
2048.....	9,728	413	10,141
Total Sewer.....	<u>\$ 648,020</u>	<u>\$ 256,249</u>	<u>\$ 904,269</u>

The Town is scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for \$6,570 of principal and \$1,609 for interest costs. Thus, net MCWT loan repayments, including interest, are scheduled to be \$29,647. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. During 2017 the principal and interest subsidy totaled \$3,003 and \$2,103, respectively.

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
Sewer Roof Repairs.....	\$ 90,000
Capital Plan.....	171,200
Sewer Engineering.....	892,000
Butterfield Park.....	300,000
Wheel Loader Lease.....	40,000
Total.....	<u>\$ 1,493,200</u>

Changes in Long-term Liabilities

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
<b>Governmental Funds</b>					
Long-Term Bonds and Notes.....	\$ 2,470,049	\$ -	\$ 173,829	\$ 2,296,220	\$ 176,354
Other Postemployment Benefits.....	5,281,334	7,151,514	2,486,013	9,946,835	-
Compensated Absences.....	72,045	79,225	72,045	79,225	79,225
Net Pension Liability.....	<u>6,666,792</u>	<u>1,990,645</u>	<u>1,514,919</u>	<u>7,142,518</u>	<u>-</u>
Total governmental activity long-term liabilities.....	<u>\$ 14,490,220</u>	<u>\$ 9,221,384</u>	<u>\$ 4,246,806</u>	<u>\$ 19,464,798</u>	<u>\$ 255,579</u>
<b>Enterprise Funds</b>					
Long-Term Bonds and Notes.....	\$ 705,575	\$ -	\$ 57,555	\$ 648,020	\$ 56,934
Other Postemployment Benefits.....	280,319	221,051	75,397	425,973	-
Compensated Absences.....	2,580	963	-	3,543	3,543
Net Pension Liability.....	<u>807,631</u>	<u>241,151</u>	<u>183,521</u>	<u>865,261</u>	<u>-</u>
Total business-type activity long-term liabilities.....	<u>\$ 1,796,105</u>	<u>\$ 463,165</u>	<u>\$ 316,473</u>	<u>\$ 1,942,797</u>	<u>\$ 60,477</u>

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The Town adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as part of its year 2011 reporting. 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 classification and the constraints imposed on the uses of those resources.

GASB Statement No. 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB Statement No. 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

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

The Town has classified its governmental fund balances with the following hierarchy.

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balance			
Nonspendable:			
Permanent fund principal..... \$	-	\$ 611,248	\$ 611,248
Restricted for:			
Chapter 90.....	-	74,528	74,528
Town Grants.....	-	49,333	49,333
Other Special Revenue Funds.....	-	1,058,453	1,058,453
Revolving Funds.....	-	142,611	142,611
Receipts Reserved.....	-	222,538	222,538
Permanent Funds.....	-	319,955	319,955
Assigned to:			
General government.....	33,487	-	33,487
Public safety.....	19,795	-	19,795
Education.....	301	-	301
Public works.....	72,454	-	72,454
Airport.....	48,581	-	48,581
Culture and recreation.....	19,651	-	19,651
Employee benefits.....	123	-	123
Unassigned.....	<u>1,585,874</u>	<u>(1,122,113)</u>	<u>463,761</u>
Total fund balance (deficit)..... \$	<u>1,780,266</u>	<u>\$ 1,356,553</u>	<u>\$ 3,136,819</u>

**NOTE 9 – RISK FINANCING**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

The Town was self-insured for its health insurance activities until converting to a premium-based plan beginning April 1, 2010. The Town continues to self-insure its dental benefits. Dental insurance activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

*Dental Insurance*

The estimate of Incurred But Not Reported (IBNR) claims is based on an estimate of claims incurred but unpaid at year end. At June 30, 2017, the amount of the liability for dental claims totaled \$9,190. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2015 are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimate</u>	<u>Claims Payments</u>	<u>Balance at Year-End</u>
Year 2016..... \$	7,237	\$ 86,913	\$ (86,824)	7,326
Year 2017.....	7,326	107,027	(105,163)	9,190



**NOTE 10 – PENSION PLAN***Plan Descriptions*

The Town is a member of the Franklin Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 39 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan.

The Town is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer 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 requirements of the MTRS. The MTRS covers certified teacher in cities (except Boston), towns, regional school districts, charter schools, educational 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-andreports/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 the measurement date of June 30, 2016. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$1,269,314 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 \$12,443,456 as of the measurement date.

*Benefits Provided*

Both Systems provide 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 the 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 become 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 year of creditable service. There were no changes in benefit terms that affected the measurement of the total pension liability at December 31, 2016.

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 FRRS 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 June 30, 2016, which was \$895,582 and 23.12% 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 \$8,007,779 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, updated 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, actuarially determined. At December 31, 2016, the Town’s proportion was 15.24%, which decreased from its proportion measured at December 31, 2015 of 16.04%.

*Pension Expense*

For the year ended June 30, 2017, the Town recognized pension expense of \$1,698,439. At June 30, 2017, the Town reported deferred outflows of resources and inflows of resources related to pensions of \$2,026,051 and \$264,425, respectively.

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.....\$	-	\$ (17,383)	\$ (17,383)
Changes of assumptions.....	681,763	-	681,763
Difference between projected and actual earnings.....	689,133	-	689,133
Changes in proportion and difference between proportionate share of contributions and actual contributions.....	655,155	(247,042)	408,113
Total Deferred Outflows/(Inflows) of Resources.....\$	2,026,051	\$ (264,425)	\$ 1,761,626

The deferred outflows/(inflows) of resources related to pension will be recognized in pension expense as follows:

Year ended June 30:

2018.....\$	605,605
2019.....	605,605
2020.....	515,287
2021.....	35,129
Total.....\$	1,761,626

*Actuarial Assumptions*

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

Valuation date.....	January 1, 2016
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	UAAL: Increasing dollar amount at 4% to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2035. The annual increase in appropriation is further limited to 5.5%.
Remaining amortization period.....	2002 & 2003 ERI: Level dollar amount to reduce the 2002 and 2003 ERI Actuarial Accrued Liability to zero on or before June 30, 2019 and June 30, 2020, respectively.
Asset valuation method.....	The Actuarial Value of Assets is the market value of assets as of the valuation date reduced by the sum of: a) 75% of gains and losses of the prior year b) 50% of gains and losses of the second prior year and c) 25% of gains and losses of the third prior year.  Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 90% or more than 110% of market value.
Inflation rate.....	3% per year.
Projected salary increases.....	Group 1: 6%-4.25%, based on service. Group 4: 7%-4.75%, based on service
Cost of living adjustments.....	Base increased from \$15,000 to \$16,000 effective July 1, 2015 and to \$17,000 effective July 1, 2016.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.
Mortality Rates:	
Pre-Retirement.....	The RP-2000 Mortality Table projected to 2017 with Scale AA.
Disabled Retiree.....	The RP-2000 Healthy Annuitant Mortality Table set forward two years.
Investment rate of return/Discount rate.....	7.75%, net of pension plan investment expense, including inflation.

*Investment policy*

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to

produce the long-term expected rate of return by weighing 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 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
PRIT Core.....	45.00%	5.30%
Domestic Equity.....	27.00%	6.60%
International Equity.....	5.00%	3.70%
Real Estate.....	10.00%	7.00%
Fixed Income.....	13.00%	5.40%
	<u>100.00%</u>	

*Rate of return*

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Discount rate*

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution 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 (7.75%), as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
The Town's proportionate share of the net pension liability.....	\$ 11,156,303	\$ 8,007,780	\$ 5,344,007

*Changes in Assumptions*

The mortality improvement scale and the expected increases in future salaries were updated.

*Changes in Plan Provisions*

None.

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

At June 30, 2015, the Plan’s membership consisted of the following:

Current retirees, beneficiaries, and dependents.....	152
Current active members.....	<u>179</u>
Total.....	<u><u>331</u></u>

*Funding Policy* – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 75% 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.

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

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

Annual required contribution.....	\$ 1,803,285
Interest on net OPEB obligation.....	344,584
Adjustments to annual required contribution.....	<u>413,541</u>
Annual OPEB cost (expense).....	2,561,410
Contributions made.....	<u>(803,198)</u>
Increase in net OPEB obligation.....	1,758,212
Net OPEB obligation/(asset) - beginning of year (as restated).....	<u>8,614,596</u>
Net OPEB obligation/(asset) - end of year.....	<u><u>\$ 10,372,808</u></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 preceding two 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	\$ 2,561,410	31%	\$ 10,372,808
6/30/2016	2,423,423	32%	8,914,596
6/30/2015	1,964,226	28%	6,970,099

*Funded Status and Funding Progress* – The funded status of the Plan as of the most recent actuarial valuation date, July 1, 2015, 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>
7/1/2015	\$ -	\$ 28,905,830	\$ 28,905,830	0%	\$ 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 multi-year 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.

The following additional information is provided as of the latest actuarial valuation:

Actuarial Methods:

Valuation date.....	July 1, 2015
Actuarial cost method.....	Individual Entry Age Normal Cost Method
Amortization method.....	Amortized as level dollar amount over 30 years at transition
Remaining amortization period.....	23 years at July 1, 2015
Asset valuation method.....	Market Value

Actuarial Assumptions:

Discount rate.....	4.00% per annum
Pre-Retirement mortality.....	Pre-retirement mortality is represented by the RP-2000 Employees Mortality table projected generationally with scale BB and a base year 2009 for males and females.
Post-Retirement mortality.....	Post-retirement mortality is represented by the RP-2000 Healthy Annuitant Mortality table projected generationally with scale BB and a base year 2009 for males and females.
Disabled mortality.....	Disabled mortality is represented by the RP-2000 Healthy Annuitant Mortality table projected generationally with scale BB and a base year 2012 for males and females.

**NOTE 12 – COMMITMENTS**

The Town is currently committed to the following projects:

<u>Purpose</u>	<u>Amount</u>
Sewer Roof Repairs.....	\$ 90,000
Capital Plan.....	171,200
Sewer Engineering.....	892,000
Butterfield Park.....	300,000
Wheel Loader Lease.....	<u>40,000</u>
Total.....	<u>\$ 1,493,200</u>

**NOTE 13 – CONTINGENCIES**

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

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

**NOTE 14 – FINANCIAL STATEMENT RESTATEMENTS**

Beginning net position of the governmental activities, the business-type activities, and each applicable enterprise fund has been restated to reflect updated actuarial valuations for OPEB liabilities that were not previously obtained for fiscal years 2015 and 2016. The restated balances are summarized in the following table:

	6/30/2016 Previously Reported Balances	Updated OPEB Valuation	6/30/2016 Revised Balances
<b>Government-Wide Financial Statements</b>			
Governmental activities.....	\$ 17,928,142	(2,982,139)	14,946,003
Business-type activities.....	7,175,986	(70,804)	7,105,182
Total.....	<u>\$ 25,104,128</u>	<u>(3,052,943)</u>	<u>22,051,185</u>
<b>Proprietary Fund Financial Statements</b>			
Water.....	\$ 5,920,889	(47,285)	5,873,604
Sewer.....	1,255,097	(23,519)	1,231,578
Total.....	<u>\$ 7,175,986</u>	<u>\$ (70,804)</u>	<u>\$ 7,105,182</u>

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 21, 2018, which is the date the financial statements were available to be issued.

**NOTE 16 – 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.

# ***Required Supplementary Information***

# ***General Fund Budgetary Comparison Schedule***

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

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

YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 10,477,679	\$ 10,477,679	\$ 10,415,625	\$ -	\$ (62,054)
Tax liens.....	-	-	142,882	-	142,882
Motor vehicle and other excise taxes.....	765,000	765,000	788,615	-	23,615
Charges for services.....	133,000	133,000	133,458	-	458
Penalties and interest on taxes.....	135,000	135,000	173,045	-	38,045
Payments in lieu of taxes.....	4,000	4,000	8,751	-	4,751
Intergovernmental.....	7,063,141	7,063,141	7,139,324	-	76,183
Departmental and other.....	920,000	920,000	897,403	-	(22,597)
Investment income.....	2,000	2,000	9,078	-	7,078
Miscellaneous.....	9,900	9,900	60,228	-	50,328
<b>TOTAL REVENUES.....</b>	<b>19,509,720</b>	<b>19,509,720</b>	<b>19,768,409</b>	<b>-</b>	<b>258,689</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	999,759	1,005,091	913,178	33,487	58,426
Public safety.....	2,371,793	2,370,874	2,311,369	19,795	39,710
Education.....	10,480,394	10,480,394	10,454,988	301	25,105
Public works.....	1,117,198	1,307,059	1,171,191	72,454	63,414
Airport.....	179,180	179,780	126,743	48,581	4,456
Human services.....	307,169	306,401	217,154	-	89,247
Culture and recreation.....	340,068	340,068	288,523	19,651	31,894
Pension benefits.....	895,582	895,582	895,582	-	-
Employee benefits.....	2,187,573	2,187,028	2,098,385	123	88,520
State and county charges.....	513,836	533,851	533,851	-	-
Debt service:					
Principal.....	338,207	338,207	173,829	-	164,378
Interest.....	298,385	298,885	291,928	-	6,957
<b>TOTAL EXPENDITURES.....</b>	<b>20,029,144</b>	<b>20,243,220</b>	<b>19,476,721</b>	<b>194,392</b>	<b>572,107</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(519,424)</b>	<b>(733,500)</b>	<b>291,688</b>	<b>(194,392)</b>	<b>830,796</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in.....	-	257,878	257,878	-	-
Transfers out.....	-	(213,618)	(213,618)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)...</b>	<b>-</b>	<b>44,260</b>	<b>44,260</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(519,424)</b>	<b>(689,240)</b>	<b>335,948</b>	<b>(194,392)</b>	<b>830,796</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>1,191,893</b>	<b>1,191,893</b>	<b>1,191,893</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 672,469</b>	<b>\$ 502,653</b>	<b>\$ 1,527,841</b>	<b>\$ (194,392)</b>	<b>\$ 830,796</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 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  
FRANKLIN REGIONAL RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016
Town's proportion of the net pension liability (asset).....	12.97%	16.04%	15.24%
Town's proportionate share of the net pension liability (asset)..... \$	4,868,195	\$ 7,474,423	\$ 8,007,780
Town's covered employee payroll..... \$	4,001,848	\$ 4,111,318	\$ 3,873,126
Net pension liability as a percentage of covered-employee payroll.....	121.65%	181.80%	206.75%
Plan fiduciary net position as a percentage of the total pension liability.....	75.98%	71.73%	70.75%

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**  
**FRANKLIN REGIONAL RETIREMENT SYSTEM**

	June 30, 2014	June 30, 2015	June 30, 2016
Actuarially determined contribution.....	\$ 740,049	\$ 905,685	\$ 895,582
Contributions in relation to the actuarially determined contribution.....	<u>(740,049)</u>	<u>(905,685)</u>	<u>(895,582)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 4,001,848	\$ 4,111,318	\$ 3,873,126
Contributions as a percentage of covered- employee payroll.....	18.49%	22.03%	23.12%

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.

Year	Commonwealth's 100% Share of the Net Pension Liability Associated with the Town	Town's Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2017.....	\$ 12,443,456	\$ 1,269,314	52.73%
2016.....	10,945,084	887,744	55.38%
2015.....	9,012,647	626,152	61.64%

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***

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

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

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

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

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)
7/1/2015	\$ -	\$ 28,905,830	\$ 28,905,830	0%	N/A	N/A
7/1/2011	-	23,500,222	23,500,222	0%	8,134,455	288.9%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2017	\$ 1,803,285	\$ 803,198	45%
2016	1,731,078	778,926	45%
2015	1,235,067	555,780	45%

The Town implemented GASB Statement No. 45 for the year ended June 30, 2009.

See notes to required supplementary information.

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

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Actuarial Methods:

Valuation date.....	July 1, 2015
Actuarial cost method.....	Individual Entry Age Normal Cost Method
Amortization method.....	Amortized as level dollar amount over 30 years at transition
Remaining amortization period.....	23 years at July 1, 2015
Asset valuation method.....	Market Value

Actuarial Assumptions:

Discount rate.....	4.00% per annum
Pre-Retirement mortality.....	Pre-retirement mortality is represented by the RP-2000 Employees Mortality table projected generationally with scale BB and a base year 2009 for males and females.
Post-Retirement mortality.....	Post-retirement mortality is represented by the RP-2000 Healthy Annuitant Mortality table projected generationally with scale BB and a base year 2009 for males and females.
Disabled mortality.....	Disabled mortality is represented by the RP-2000 Healthy Annuitant Mortality table projected generationally with scale BB and a base year 2012 for males and females.

Plan Membership:

Current retirees, beneficiaries, and dependents.....	152
Current active members.....	<u>179</u>
Total.....	<u><u>331</u></u>

See notes to required supplementary information.

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

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.

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

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 year 2017 approved budget authorized approximately \$20 million in appropriations and other amounts to be raised.

The Town Accountant’s office 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 below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$	335,948
<u>Perspective difference:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		129,317
<u>Basis of accounting differences:</u>		
Net change in revenues in recording 60 day receipts.....		(51,247)
Net change in recording expenditure accruals.....		11,286
		<u>11,286</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	\$	<u>425,304</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.

Schedule of the Special Funding Amounts of the Net Pension Liabilities

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 revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

Changes in Assumptions

The mortality improvement scale and the expected increases in future salaries were updated.

Changes in Plan Provisions

None.

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Town administers a single-employer defined benefit healthcare plan ("the Other Postemployment Benefit Plan"). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town's health insurance plan, which covers both active and retired members, including teachers.

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

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

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

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