

TOWN OF ORLEANS, MASSACHUSETTS  
FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION  
YEAR ENDED JUNE 30, 2007  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

TOWN OF ORLEANS, MASSACHUSETTS

FINANCIAL STATEMENTS

AND ADDITIONAL INFORMATION

YEAR ENDED JUNE 30, 2007

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TIMOTHY M. CRAVEN

*Certified Public Accountant*

INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen  
Town of Orleans, Massachusetts

I have audited the financial statements of the governmental activities, business-type activities, major funds, and remaining fund information, which collectively comprise the basic financial statements of the Town of Orleans, Massachusetts as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Town's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, major funds, and the remaining information of the Town of Orleans, Massachusetts at June 30, 2006, and the changes in financial position and cash flows, where applicable, of those funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of Orleans, Massachusetts, taken as a whole. The accompanying schedules of cash and taxes are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Timothy M. Craven*

March 31, 2008

## TOWN OF ORLEANS, MASSACHUSETTS

### Management's Discussion and Analysis

As management of the Town of Orleans (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements, which begin on page 10.

#### **Financial Highlights:**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$58.8 million (*net assets*). Of this amount, \$8.6 million is considered unrestricted (*unrestricted net assets*). The unrestricted net assets of the Town's governmental activities are \$6.2 million and may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted net assets of the Town's business-type activities are \$2.4 million, \$1.6 million may be used to meet the ongoing obligations of the Town's water business-type activities and \$.8 million may be used to meet the ongoing obligations of the Town's ambulance business-type activities.
- The government's total net assets increased by \$1.4 million or .5% in fiscal 2007. Net assets of governmental activities increased by \$1.2 million, a 2.7% increase from fiscal 2006. Net assets of business-type activities decreased by \$.2 million or 1.7% from 2006.
- At June 30, 2007, the Town's governmental funds reported a combined ending fund balance of \$6.5 million. The combined governmental funds fund balance increased by \$2.6 million or 164.9% from the prior year's ending fund balance. A total of \$5.3 million, or 81% of the \$6.5 million fund balance is considered unreserved at June 30, 2007.
- The Town's general fund reported a fund balance of \$3.7 million at the end of fiscal 2007. The unreserved fund balance for the general fund was \$2.5 million or 11.4% of total general fund expenditures and transfers to other funds. A total of \$.5 million of the unreserved fund balance was designated for funding the fiscal year 2008 budget.
- The Town's total bonded debt increased by a net of \$5.4 million or 30.5% during the year. The key factor in this increase was issuance of general obligation bonds for construction and renovation of Town Hall land acquisition.

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

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the cash flows*. Thus, revenue and expenses reported for some

items that will not result in cash flows until future fiscal periods, i.e., uncollected taxes or earned but unused sick and vacation time. This statement also presents a comparison between direct expenses and program revenues for each function of the town.

Both of the government-wide financial statements distinguish functions and activities of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions and activities that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the Town include the broad functions of general government; protection of persons and property; education; public works; health & human services; culture and recreation; debt service; employee benefits and intergovernmental charges. The business-type activities of the Town include the water department, ambulance and the Elementary School food services.

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

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

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

The Town maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the land bank fund, both of which are considered major funds. The remaining governmental funds are aggregated and presented under the caption *other funds*.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

**Proprietary funds:** Proprietary funds are used to account for the financial activities related to functions for which the Town sells goods or charges customers a fee, and which operate like a commercial business. This concept is broader in scope than the *enterprise fund* concept contained in State law. The proprietary fund provides the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The Town maintains three proprietary funds, the water department, ambulance fund and food service fund (Elementary school lunch program). The basic proprietary fund financial statements can be found on pages 17-19 of this report.

**Fiduciary funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* included in the government-wide financial statements because the

resources of the funds are *not* available to support the Town's own functions and activities. The accounting used for fiduciary funds is much like that used for proprietary funds. All fiduciary funds are combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption *private purpose trusts*.

The fiduciary fund financial statements can be found on pages 20-21 of this report.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-31 of this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning cash balances and taxes receivable.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS:**

**Statement of Net Assets**

**Town of Orleans, Massachusetts  
Net Assets**

	Governmental <u>Activities</u>	Business- type <u>Activities</u>	<u>Total</u>
Current Assets	\$ 11,569,282	\$ 2,959,096	\$ 14,528,378
Capital Assets	<u>61,022,363</u>	<u>13,543,249</u>	<u>74,565,612</u>
Total Assets	72,591,645	16,502,345	89,093,990
Current Liabilities	4,904,139	43,080	4,947,219
Long-term Liabilities	<u>21,102,321</u>	<u>4,195,303</u>	<u>25,297,624</u>
Total Liabilities	26,006,460	4,238,383	30,244,843
Net Assets:			
Invested in capital, net of related debt	41,788,363	9,508,249	51,296,612
Restricted	(1,421,469)	344,113	(1,077,356)
Unrestricted	<u>6,218,291</u>	<u>2,411,600</u>	<u>8,629,891</u>
Total Net Assets	<u>\$ 46,585,185</u>	<u>\$ 12,263,962</u>	<u>\$ 58,849,147</u>

As noted earlier, the assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$58.8 million (*net assets*). The largest portion of the Town's total assets (83.7%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's investment in

capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources. since capital assets themselves, cannot be used to liquidate these liabilities.

Included within the governmental activities. capital assets, net of depreciation if applicable, are \$33.1 million in land and \$18.6 million in infrastructure, buildings and improvements. Included within the business-type activities, capital assets are \$1 million in land and \$12.2 million in infrastructure, buildings and improvements.

Over time, net assets may serve as a useful indicator of a government's financial position.

**Statement of Changes in Net Assets**

**Changes in Net Assets**

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Revenues:			
Program Revenues:			
Charges for service	\$ 2,298,888	\$ 2,337,797	\$ 4,636,685
Operating grants and contributions	1,847,527	13,676	1,861,203
Capital grants and contributions	-	-	-
General Revenues			
Property tax	16,695,697	-	16,695,697
Other taxes	1,259,327	-	1,259,327
Intergovernmental	828,246	-	828,246
All other	663,139	-	663,139
Total Revenues	<u>23,592,824</u>	<u>2,351,473</u>	<u>25,944,297</u>
Expenses:			
General government	2,643,726	-	2,643,726
Protection of persons & property	6,808,379	-	6,808,379
Education	7,104,629	-	7,104,629
Public works	2,139,130	-	2,139,130
Human services	1,012,615	-	1,012,615
Culture & recreation	2,052,396	-	2,052,396
Debt service interest	823,901	-	823,901
Unclassified	48,149	-	48,149
Intergovernmental	411,117	-	411,117
Water	-	1,334,350	1,334,350
Ambulance	-	70,269	70,269
Food services	-	46,882	46,882
Total Expenses	<u>23,044,042</u>	<u>1,451,501</u>	<u>24,495,543</u>
Increase in net assets before transfers	<u>548,782</u>	<u>899,972</u>	<u>1,448,754</u>
Transfers	<u>694,001</u>	<u>(694,001)</u>	<u>-</u>
Increase in net assets	<u>1,242,783</u>	<u>(205,971)</u>	<u>1,448,754</u>
Net Assets - June 30, 2006	<u>45,342,402</u>	<u>12,057,991</u>	<u>57,400,393</u>
Net Assets - June 30, 2007	<u>\$ 46,585,185</u>	<u>\$ 12,263,962</u>	<u>\$ 58,849,147</u>

**Governmental activities**

Governmental activities increased the Town's net assets by \$1.2 million or 2.7% during fiscal 2007. All

governmental activity expense categories relied upon subsidies from general revenues to one degree or another during fiscal 2007. A summary of revenues and major functional expenditures is presented above.

*Total Revenues* – Total governmental activities revenues for the Town are comprised of general revenues of \$19.4 million, charges for services of \$2.3 million and operating grants and contributions of \$1.8 million.

*General Revenue* – Property tax revenue is the Town's largest revenue source at \$16.7 million, representing 85.9% of general revenues from governmental activities. The assessed tax valuation base is \$3.9 billion, up from \$3.8 billion assessed in the previous year, showing a 2.1% increase.

*Program Revenues* – Charges for services of \$2.3 million represent a variety of departmental revenues. Parking and off-road vehicle use on the Town's beaches are the largest single source.

Operating and capital grants and contributions of \$1.8 million represent several federal, state and other grants and contributions. This revenue category accounts for 7.8% of total governmental activities revenues.

*Expenses* – For the fiscal year ended June 30, 2007, expenses for governmental activities totaled \$23 million which cover a wide range of services. Education continues to be one of the Town's priorities with expenditures representing \$7.1 million or 30.8% of total governmental activities expenses.

#### ***Business-type activities***

Business type activities increased the Town's business type net assets by \$.2 million or 1.7% during fiscal 2007.

### **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND FINANCIAL STATEMENTS:**

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

Governmental Funds - As of June 30, 2007, the Town's governmental funds reported combined ending fund balances of \$6.5 million. Of this amount, \$.7 million is reserved for encumbrances and continuing appropriations, \$.5 million has been designated for subsequent year appropriations, and \$2.8 million is for capital and special revenue projects. This leaves an unreserved/undesignated fund balance of \$2.5 million.

The general fund is the chief operating fund of the Town. At June 30, 2007, the unreserved/undesignated fund balance of the general fund of \$2.5 million represents 66.9% of the total general fund balance of \$3.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures (including transfers to other funds). Unreserved/Undesignated fund balance represents 11.4% of total general fund expenditures (including transfers to other funds), while total fund balance represents 17 % of the same amount.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. During 2005 the Government Finance Officers Association (GFOA) issued a recommendation that at a minimum, general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to fifteen percent of regular general fund operating revenues, or no less than one to two months of regular general fund operating expenditures.

*Proprietary Funds* – The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail.