

***TOWN OF ORANGE, MASSACHUSETTS***

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

***FISCAL YEAR ENDED JUNE 30, 2008***

TOWN OF ORANGE, MASSACHUSETTS

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JUNE 30, 2008

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## Independent Auditors' Report

To the Honorable Board of Selectmen  
Town of Orange, Massachusetts

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 fiscal year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Orange, Massachusetts' management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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. We believe that our audit provides a reasonable basis for our 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2009, on our consideration of the Town of Orange, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, schedule of funding progress and schedule of employer contributions, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wakefield, Massachusetts  
February 4, 2009

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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 fiscal year ended June 30, 2008. 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 assets* presents information on all 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 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 related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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 fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. 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's general fund is shown separately and 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 health 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 assets may serve over time as a useful indicator of a government's financial position. The Town of Orange's governmental assets exceeded liabilities for governmental activities by \$26.2 million and the business-type activities by \$8.0 million at the close of the most recent fiscal year. Key components of the Town's activities are presented below.

### Governmental Activities

	<u>2008</u>	<u>2007</u>
<b>Assets:</b>		
Current assets.....	\$ 4,942,592	\$ 5,598,669
Noncurrent assets (excluding capital).....	320,108	373,087
Capital assets.....	<u>23,449,873</u>	<u>23,263,464</u>
<b>Total assets.....</b>	<b><u>28,712,573</u></b>	<b><u>29,235,220</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	1,236,163	1,071,122
Noncurrent liabilities (excluding debt).....	8,861	30,076
Current debt.....	481,274	429,274
Noncurrent debt.....	<u>829,656</u>	<u>1,202,930</u>
<b>Total liabilities.....</b>	<b><u>2,555,954</u></b>	<b><u>2,733,402</u></b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	22,091,694	21,540,791
Restricted.....	1,346,662	1,960,391
Unrestricted.....	<u>2,718,263</u>	<u>3,000,636</u>
<b>Total net assets.....</b>	<b><u>\$ 26,156,619</u></b>	<b><u>\$ 26,501,818</u></b>

Governmental net assets of \$22.1 million (85%) 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 assets of \$1.3 million (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$2.7 million (10%) may be used to meet the government's ongoing obligations to citizens and creditors.

	<u>2008</u>	<u>2007</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 2,733,446	\$ 3,043,590
Operating grants and contributions.....	8,985,005	8,539,001
Capital grants and contributions.....	472,359	493,549
<b>General Revenues:</b>		
Real estate and personal property taxes.....	7,002,995	6,397,205
Motor vehicle and other excise taxes.....	676,544	627,765
Penalties and interest on taxes.....	104,566	121,359
Payments in lieu of taxes.....	3,286	3,286
Grants and contributions not restricted to specific programs.....	2,132,960	2,049,132
Unrestricted investment income.....	33,053	153,556
Miscellaneous.....	179,737	44,351
<b>Total revenues.....</b>	<b><u>22,323,951</u></b>	<b><u>21,472,794</u></b>
<b>Expenses:</b>		
General Government.....	2,073,801	2,159,594
Public Safety.....	3,111,244	2,825,107
Education.....	13,955,862	13,861,465
Public Works.....	2,358,822	2,104,107
Airport.....	179,697	198,853
Human Services.....	221,646	229,339
Culture and Recreation.....	462,181	383,675
Interest.....	305,897	522,618
<b>Total expenses.....</b>	<b><u>22,669,150</u></b>	<b><u>22,284,758</u></b>
<b>Excess (Deficiency) before transfers.....</b>	<b>(345,199)</b>	<b>(811,964)</b>
<b>Transfers.....</b>	<b><u>-</u></b>	<b><u>(1,700,870)</u></b>
<b>Change in net assets.....</b>	<b>\$ <u>(345,199)</u></b>	<b>\$ <u>(2,512,834)</u></b>

Governmental net assets decreased during fiscal year 2008 by (\$345,000) which was mainly due to expenditures exceeding revenues. Program revenues remained consistent to the prior year with an increase of \$115,000. General revenues increased approximately \$736,000 from real estate and personal property taxes. Expenses were up approximately 2.4% overall, with the majority of the increases occurring in public safety and public works. Governmental expenses include approximately \$1.3 million of depreciation expense in fiscal year 2008.

**Business-type Activities**

**Water Fund**

	<u>2008</u>	<u>2007</u>
<b>Assets:</b>		
Current assets.....	\$ 586,376	\$ 543,757
Capital assets.....	<u>5,737,002</u>	<u>5,770,382</u>
<b>Total assets.....</b>	<b><u>6,323,378</u></b>	<b><u>6,314,139</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	<u>32,601</u>	<u>28,715</u>
<b>Net Assets:</b>		
Capital assets net of related debt.....	5,737,002	5,770,382
Unrestricted.....	<u>553,775</u>	<u>515,042</u>
<b>Total net assets.....</b>	<b><u>\$ 6,290,777</u></b>	<b><u>\$ 6,285,424</u></b>

Water Fund net assets of \$5.7 million (91%) represent investments in capital assets net of related debt. The remaining \$554,000 (9%) 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 \$5,000 in net assets compared to an increase of approximately \$35,000 in the prior year. The key components of the change relate to increases in revenues and increases in operating expenses, including depreciation and overhead charges.

	<u>2008</u>	<u>2007</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 604,718	\$ 576,055
<b>General Revenues:</b>		
Investment income.....	<u>8,736</u>	<u>7,587</u>
<b>Total revenues.....</b>	<b><u>613,454</u></b>	<b><u>583,642</u></b>
<b>Expenses:</b>		
Water.....	<u>608,101</u>	<u>548,636</u>
<b>Total expenses.....</b>	<b><u>608,101</u></b>	<b><u>548,636</u></b>
<b>Change in net assets.....</b>	<b><u>\$ 5,353</u></b>	<b><u>\$ 35,006</u></b>

**Sewer Fund**

	<u>2008</u>	<u>2007</u>
<b>Assets:</b>		
Current assets..... \$	523,301	139,639
Noncurrent assets (excluding capital).....	24,036	26,049
Capital assets.....	<u>1,791,620</u>	<u>1,845,745</u>
<b>Total assets.....</b>	<b><u>2,338,957</u></b>	<b><u>2,011,433</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	23,779	12,943
Current debt.....	399,700	19,400
Noncurrent debt.....	<u>197,000</u>	<u>216,700</u>
<b>Total liabilities.....</b>	<b><u>620,479</u></b>	<b><u>249,043</u></b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	1,196,933	1,637,580
Unrestricted.....	<u>521,545</u>	<u>124,810</u>
<b>Total net assets..... \$</b>	<b><u><u>1,718,478</u></u></b>	<b><u><u>1,762,390</u></u></b>

Sewer Fund net assets of \$1.2 million (70%) represent investments in capital assets net of related debt. The remaining \$522,000 (30%) is available to be used for the ongoing operation of the Town's Sewer department.

As shown in the following table, there was a decrease of approximately (\$44,000) in net assets compared to an increase of approximately \$1.8 million in the prior year. The sewer enterprise fund was established as of July 1, 2006 and it included transfers of capital assets and related debt previously recorded in the governmental activities prior to fiscal year 2007.

	<u>2008</u>	<u>2007</u>
<b>Program revenues:</b>		
Charges for services..... \$	428,853	508,260
Operating grants and contributions.....	4,531	4,869
<b>General Revenues:</b>		
Investment income.....	<u>578</u>	<u>276</u>
<b>Total revenues.....</b>	<b><u>433,962</u></b>	<b><u>513,405</u></b>
<b>Expenses:</b>		
Sewer.....	<u>477,874</u>	<u>451,885</u>
<b>Total expenses.....</b>	<b><u>477,874</u></b>	<b><u>451,885</u></b>
<b>Excess (Deficiency) before transfers.....</b>	<b>(43,912)</b>	<b>61,520</b>
<b>Transfers.....</b>	<b><u>-</u></b>	<b><u>1,700,870</u></b>
<b>Change in net assets..... \$</b>	<b><u><u>(43,912)</u></u></b>	<b><u><u>1,762,390</u></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 *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of approximately \$2.2 million, a decrease of approximately \$538,000 from the prior year. The decrease is mainly attributable to the general fund where management budgeted the use of prior year fund balance, and to transfers out of special revenue funds to the health insurance fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$220,000, while total fund balance was \$264,000.

### **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 exceeded budgeted amounts by approximately \$159,000 mainly from tax liens, while actual expenditures, including carryovers, exceeded budgeted amounts by approximately \$60,000. Differences between the original general fund budget and the final budget of approximately \$571,000 relate mainly to increases in public safety, public works, employee benefits and debt service interest.

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

In conjunction with the operating budget, the Town annually prepares capital budgets for the upcoming fiscal year. Major additions for the governmental activities and the water activities relate mainly to infrastructure upgrades. Total additions for the Governmental and Business-type Activities amounted to \$1.5 million and \$107,000, respectively.

Outstanding long-term debt of the general government, as of June 30, 2008, totaled \$1 million, of which approximately \$200,000 is related to school projects, \$670,000 is for the landfill, and the balance of \$180,000 is for various other governmental projects. In addition the Sewer Enterprise fund has approximately \$217,000 of long-term that 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***

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**STATEMENT OF NET ASSETS**

JUNE 30, 2008

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 2,615,984	\$ 769,875	\$ 3,385,859
Investments.....	137,772	-	137,772
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	184,297	-	184,297
Tax liens.....	186,701	-	186,701
Motor vehicle and other excise taxes.....	79,299	-	79,299
User fees.....	136	337,789	337,925
Departmental and other.....	269,550	-	269,550
Special assessments.....	92,729	-	92,729
Intergovernmental.....	932,625	2,013	934,638
Working capital deposit.....	347,700	-	347,700
Tax foreclosures.....	95,799	-	95,799
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Loans.....	320,108	-	320,108
Capital assets, net of accumulated depreciation.....	23,449,873	7,528,622	30,978,495
<b>TOTAL ASSETS.....</b>	<b>28,712,573</b>	<b>8,662,335</b>	<b>37,374,908</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	634,423	22,688	657,111
Accrued payroll.....	233,238	8,832	242,070
Health claims payable.....	160,000	-	160,000
Capital lease obligations.....	38,388	-	38,388
Compensated absences.....	170,114	24,860	194,974
Bonds and notes payable.....	481,274	399,700	880,974
<b>NONCURRENT:</b>			
Capital lease obligations.....	8,861	-	8,861
Bonds and notes payable.....	829,656	197,000	1,026,656
<b>TOTAL LIABILITIES.....</b>	<b>2,555,954</b>	<b>653,080</b>	<b>3,209,034</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	22,091,694	6,933,935	29,025,629
Restricted for:			
Loans.....	320,108	-	320,108
Permanent funds:			
Expendable.....	120,605	-	120,605
Nonexpendable.....	646,038	-	646,038
Gifts and grants.....	259,911	-	259,911
Unrestricted.....	2,718,263	1,075,320	3,793,583
<b>TOTAL NET ASSETS.....</b>	<b>\$ 26,156,619</b>	<b>\$ 8,009,255</b>	<b>\$ 34,165,874</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2008

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.....	\$ 2,073,801	\$ 1,073,902	\$ 1,996	\$ -	\$ (997,903)
Public safety.....	3,111,244	644,809	326,345	468,550	(1,671,540)
Education.....	13,955,862	544,377	7,689,138	-	(5,722,347)
Public works.....	2,358,822	290,453	571,686	3,809	(1,492,874)
Airport.....	179,697	75,296	184,044	-	79,643
Human services.....	221,646	56,493	33,549	-	(131,604)
Culture and recreation.....	462,181	48,116	157,315	-	(256,750)
Interest.....	305,897	-	20,932	-	(284,965)
Total Governmental Activities.....	<u>22,669,150</u>	<u>2,733,446</u>	<u>8,985,005</u>	<u>472,359</u>	<b>(10,478,340)</b>
<i>Business-Type Activities:</i>					
Water.....	608,101	604,718	-	-	(3,383)
Sewer.....	477,874	428,853	4,531	-	(44,490)
Total Business-Type Activities.....	<u>1,085,975</u>	<u>1,033,571</u>	<u>4,531</u>	<u>-</u>	<b>(47,873)</b>
Total Primary Government.....	<u>\$ 23,755,125</u>	<u>\$ 3,767,017</u>	<u>\$ 8,989,536</u>	<u>\$ 472,359</u>	<u>\$ (10,526,213)</u>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(10,478,340)</b>	\$ <b>(47,873)</b>	\$ <b>(10,526,213)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	6,862,031	-	6,862,031
Tax liens.....	140,964	-	140,964
Motor vehicle and other excise taxes.....	676,544	-	676,544
Penalties and interest on taxes.....	104,566	-	104,566
Payments in lieu of taxes.....	3,286	-	3,286
Grants and contributions not restricted to specific programs.....	2,132,960	-	2,132,960
Unrestricted investment income.....	33,053	9,314	42,367
Miscellaneous.....	179,737	-	179,737
<b>Total general revenues.....</b>	<b>10,133,141</b>	<b>9,314</b>	<b>10,142,455</b>
 Change in net assets.....	 (345,199)	 (38,559)	 (383,758)
<i>Net Assets:</i>			
Beginning of year.....	26,501,818	8,047,814	34,549,632
End of year.....	\$ <u>26,156,619</u>	\$ <u>8,009,255</u>	\$ <u>34,165,874</u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2008

<b>ASSETS</b>	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 563,079	\$ 1,991,914	\$ 2,554,993
Investments.....	-	137,772	137,772
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	184,297	-	184,297
Tax liens .....	186,701	-	186,701
Motor vehicle and other excise taxes.....	79,299	-	79,299
User fees.....	136	-	136
Departmental and other.....	212,155	-	212,155
Special assessments.....	62,053	30,676	92,729
Intergovernmental.....	720,270	212,355	932,625
Loans.....	-	320,108	320,108
Tax foreclosures.....	95,799	-	95,799
<b>TOTAL ASSETS.....</b>	<b>\$ 2,103,789</b>	<b>\$ 2,692,825</b>	<b>\$ 4,796,614</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 227,723	\$ 123,819	\$ 351,542
Accrued payroll.....	129,200	104,038	233,238
Deferred revenues.....	1,482,972	350,784	1,833,756
Notes payable.....	-	160,000	160,000
<b>TOTAL LIABILITIES.....</b>	<b>1,839,895</b>	<b>738,641</b>	<b>2,578,536</b>
<b>FUND BALANCES:</b>			
Reserved for:			
Encumbrances and continuing appropriations.....	7,584	-	7,584
School debt service.....	35,905	-	35,905
Perpetual permanent funds.....	-	646,038	646,038
Unreserved:			
Undesignated, reported in:			
General fund.....	220,405	-	220,405
Special revenue funds.....	-	1,316,817	1,316,817
Capital projects funds.....	-	(129,276)	(129,276)
Permanent funds.....	-	120,605	120,605
<b>TOTAL FUND BALANCES.....</b>	<b>263,894</b>	<b>1,954,184</b>	<b>2,218,078</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 2,103,789</b>	<b>\$ 2,692,825</b>	<b>\$ 4,796,614</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

Total governmental fund balances.....	\$	2,218,078
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		23,449,873
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		1,833,756
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		23,205
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(1,150,930)	
Capital lease obligations.....	(47,249)	
Compensated absences.....	<u>(170,114)</u>	
Net effect of reporting long-term liabilities.....		<u>(1,368,293)</u>
Net assets of governmental activities.....	\$	<u>26,156,619</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FISCAL YEAR ENDED JUNE 30, 2008**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Real estate and personal property taxes, net of tax refunds.....	\$ 6,854,384	\$ -	\$ 6,854,384
Tax liens.....	138,477	-	138,477
Motor vehicle and other excise taxes.....	678,825	-	678,825
Charges for services.....	141,089	114,031	255,120
Penalties and interest on taxes.....	104,566	-	104,566
Payments in lieu of taxes.....	3,286	-	3,286
Intergovernmental.....	8,674,065	3,898,496	12,572,561
Departmental and other.....	705,135	263,195	968,330
Contributions.....	-	264,265	264,265
Investment income.....	53,584	(21,052)	32,532
Miscellaneous.....	270,720	-	270,720
<b>TOTAL REVENUES.....</b>	<b>17,624,131</b>	<b>4,518,935</b>	<b>22,143,066</b>
<b>EXPENDITURES:</b>			
Current:			
General government.....	819,465	948,320	1,767,785
Public safety.....	1,891,010	778,223	2,669,233
Education.....	9,211,753	1,665,371	10,877,124
Public works.....	1,020,987	696,765	1,717,752
Airport.....	134,582	188,764	323,346
Human services.....	93,758	95,731	189,489
Culture and recreation.....	274,866	76,550	351,416
Pension benefits.....	1,556,553	-	1,556,553
Employee benefits.....	1,785,119	-	1,785,119
State and county charges.....	453,097	-	453,097
Debt service:			
Principal.....	481,274	-	481,274
Interest.....	305,897	-	305,897
<b>TOTAL EXPENDITURES.....</b>	<b>18,028,361</b>	<b>4,449,724</b>	<b>22,478,085</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(404,230)</b>	<b>69,211</b>	<b>(335,019)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Capital lease financing.....	-	26,619	26,619
Transfers in.....	172,491	62,721	235,212
Transfers out.....	(30,207)	(434,225)	(464,432)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>142,284</b>	<b>(344,885)</b>	<b>(202,601)</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(261,946)</b>	<b>(275,674)</b>	<b>(537,620)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>525,840</b>	<b>2,229,858</b>	<b>2,755,698</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 263,894</b>	<b>\$ 1,954,184</b>	<b>\$ 2,218,078</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**

FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds.....	\$	(537,620)
<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.....	1,513,669	
Depreciation expense.....	<u>(1,327,260)</u>	
Net effect of reporting capital assets.....		186,409
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred 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 deferred revenue.....</p>		
		(391,671)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Capital lease financing.....	(26,619)	
Principal payments on capital leases.....	69,839	
Debt service principal payments.....	<u>481,274</u>	
Net effect of reporting long-term debt.....		524,494
<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.....		(103,688)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>(23,123)</u>
Change in net assets of governmental activities.....	\$	<u><u>(345,199)</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**

JUNE 30, 2008

	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.....	\$ 417,958	\$ 351,917	\$ 769,875	\$ 60,991
Receivables, net of allowance for uncollectibles:				
User fees.....	168,418	169,371	337,789	-
Departmental and other.....	-	-	-	57,395
Intergovernmental.....	-	2,013	2,013	-
Working capital deposit.....	-	-	-	347,700
Total current assets.....	586,376	523,301	1,109,677	466,086
<b>NONCURRENT:</b>				
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	-	24,036	24,036	-
Capital assets, net of accumulated depreciation.....	5,737,002	1,791,620	7,528,622	-
<b>TOTAL ASSETS.....</b>	<b>6,323,378</b>	<b>2,338,957</b>	<b>8,662,335</b>	<b>466,086</b>
<b>LIABILITIES</b>				
<b>CURRENT:</b>				
Warrants payable.....	13,688	9,000	22,688	282,881
Accrued payroll.....	5,814	3,018	8,832	-
Health claims payable.....	-	-	-	160,000
Compensated absences.....	13,099	11,761	24,860	-
Bonds and notes payable.....	-	399,700	399,700	-
Total current liabilities.....	32,601	423,479	456,080	442,881
<b>NONCURRENT:</b>				
Bonds and notes payable.....	-	197,000	197,000	-
<b>TOTAL LIABILITIES.....</b>	<b>32,601</b>	<b>620,479</b>	<b>653,080</b>	<b>442,881</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	5,737,002	1,196,933	6,933,935	-
Unrestricted.....	553,775	521,545	1,075,320	23,205
<b>TOTAL NET ASSETS.....</b>	<b>\$ 6,290,777</b>	<b>\$ 1,718,478</b>	<b>\$ 8,009,255</b>	<b>\$ 23,205</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water Fund	Sewer Fund	Total	
<b>OPERATING REVENUES:</b>				
Employee contributions .....	\$ -	\$ -	\$ -	\$ 572,036
Employer contributions .....	-	-	-	1,497,354
Charges for services .....	604,718	428,853	1,033,571	-
<b>TOTAL OPERATING REVENUES .....</b>	<b>604,718</b>	<b>428,853</b>	<b>1,033,571</b>	<b>2,069,390</b>
<b>OPERATING EXPENSES:</b>				
Cost of services and administration .....	420,890	389,334	810,224	-
Utilities.....	53,278	-	53,278	-
Repairs and maintenance.....	18,958	-	18,958	-
Depreciation.....	114,975	79,609	194,584	-
Employee benefits .....	-	-	-	2,322,254
<b>TOTAL OPERATING EXPENSES .....</b>	<b>608,101</b>	<b>468,943</b>	<b>1,077,044</b>	<b>2,322,254</b>
<b>OPERATING INCOME.....</b>	<b>(3,383)</b>	<b>(40,090)</b>	<b>(43,473)</b>	<b>(252,864)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income.....	8,736	578	9,314	521
Interest expense.....	-	(8,931)	(8,931)	-
MWPAT interest subsidy.....	-	4,531	4,531	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>8,736</b>	<b>(3,822)</b>	<b>4,914</b>	<b>521</b>
<b>INCOME BEFORE TRANSFERS.....</b>	<b>5,353</b>	<b>(43,912)</b>	<b>(38,559)</b>	<b>(252,343)</b>
<b>TRANSFERS:</b>				
Transfers in.....	-	-	-	229,220
<b>CHANGE IN NET ASSETS.....</b>	<b>5,353</b>	<b>(43,912)</b>	<b>(38,559)</b>	<b>(23,123)</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>6,285,424</b>	<b>1,762,390</b>	<b>8,047,814</b>	<b>46,328</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 6,290,777</b>	<b>\$ 1,718,478</b>	<b>\$ 8,009,255</b>	<b>\$ 23,205</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds			Governmental
	Water Fund	Sewer Fund	Total	Activities - Internal Service Funds
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from customers and users.....	\$ 580,173	\$ 374,980	\$ 955,153	\$ 572,036
Receipts from interfund services provided.....	-	-	-	1,463,980
Payments to vendors.....	(283,849)	(236,767)	(520,616)	-
Payments to employees.....	(205,391)	(141,731)	(347,122)	-
Payments for interfund services used.....	-	-	-	(2,069,200)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>90,933</b>	<b>(3,518)</b>	<b>87,415</b>	<b>(33,184)</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>				
Transfers in.....	-	-	-	229,220
Advances from other funds.....	-	-	-	(135,566)
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>93,654</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>				
Proceeds from the issuance of bonds and notes.....	-	380,000	380,000	-
Acquisition and construction of capital assets.....	(81,595)	(25,484)	(107,079)	-
Principal payments on bonds and notes.....	-	(19,400)	(19,400)	-
Interest expense.....	-	(4,400)	(4,400)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(81,595)</b>	<b>330,716</b>	<b>249,121</b>	<b>-</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Investment income.....	8,736	578	9,314	521
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>18,074</b>	<b>327,776</b>	<b>345,850</b>	<b>60,991</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>399,884</b>	<b>24,141</b>	<b>424,025</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 417,958</b>	<b>\$ 351,917</b>	<b>\$ 769,875</b>	<b>\$ 60,991</b>
<b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</u></b>				
Operating income.....	\$ (3,383)	\$ (40,090)	\$ (43,473)	\$ (252,864)
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation.....	114,975	79,609	194,584	-
Changes in assets and liabilities:				
User fees.....	(24,545)	(55,759)	(80,304)	-
Departmental and other.....	-	-	-	(57,395)
Intergovernmental receivables.....	-	1,886	1,886	-
Working capital deposit.....	-	-	-	(39,100)
Other assets.....	-	-	-	24,021
Warrants payable.....	(4,465)	(2,121)	(6,586)	282,881
Accrued payroll.....	5,814	3,018	8,832	-
Health claims payable.....	-	-	-	9,273
Accrued compensated absences.....	2,537	9,939	12,476	-
Total adjustments.....	94,316	36,572	130,888	219,680
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 90,933</b>	<b>\$ (3,518)</b>	<b>\$ 87,415</b>	<b>\$ (33,184)</b>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents.....	\$ 50,169	\$ 32,019
<b>LIABILITIES</b>		
Liabilities due depositors.....	-	32,019
<b>NET ASSETS</b>		
Held in trust for private purposes.....	\$ 50,169	-

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Net investment income:	
Interest.....	\$ <u>1,829</u>
<u>DEDUCTIONS:</u>	
Educational scholarships.....	<u>750</u>
CHANGE IN NET ASSETS.....	1,079
NET ASSETS AT BEGINNING OF YEAR.....	<u>49,090</u>
NET ASSETS AT END OF YEAR.....	\$ <u><u>50,169</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.

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

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) 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, liabilities, 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, liabilities, 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 fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider 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, 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 fiscal 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 the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The *permanent fund* is used to account for 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 fund is 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 health 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:

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

#### 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. 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 fiscal year of the levy.

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

**F. 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.

**G. 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 \$5,000 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 fiscal year of the purchase.

H. 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 assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets 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.

I. 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 assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as “Transfers, net”.

## J. Deferred Revenue

Deferred 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.

## K. Net Assets and Fund Equity

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

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

Net assets have 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.

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

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“School debt service” relates to amounts raised through an authorized debt exclusion for the specific use of reducing the amounts to be permanently financed on the regional school construction project.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

## L. 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 assets. 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.

M. 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).

N. 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.

O. Post Retirement Benefits*Fund Financial Statements*

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 75% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2008, the Town's share of this expense/expenditure totaled approximately \$251,000. There were 46 participants eligible to receive benefits at June 30, 2008.

Health insurance coverage for retired teachers of the Town is provided by the Commonwealth of Massachusetts. Annually the Commonwealth charges the Town its share of insurance expense. For the fiscal year ended June 30, 2008, the Town was charged approximately \$276,000 which is reported as a state and county assessment. The Commonwealth does not provide the number of participants covered.

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

### Q. Fund Deficits

Several individual fund deficits exist at June 30, 2008, within the special revenue and capital project funds. These deficits will be funded through available funds and grants during fiscal year 2009.

### R. Total Column

#### *Government-Wide Financial Statements*

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

#### *Fund Financial Statements*

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

## **NOTE 2 – CASH AND INVESTMENTS**

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

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

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

### Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Orange's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$2,122,441 and the bank balance totaled \$2,634,454. Of the bank balance, \$505,647 was covered by Federal Depository Insurance and \$2,128,807 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2008, the Town of Orange had the following investments:

<u>Other Investments:</u>	
Equity Securities.....	\$ 137,772 (1)
MMDT.....	<u>1,345,606</u>
Total Investments.....	<u>\$ 1,483,378</u>

(1) As of the date of this report the market values of these equity securities have declined in value to approximately \$54,000.

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. At June 30, 2008 the Town's investments as listed above are not subject to custodial credit risk.

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.

**NOTE 3 – RECEIVABLES**

At June 30, 2008, receivables for the individual major governmental funds and non-major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 236,904	\$ (52,607)	\$ 184,297
Tax liens .....	186,701	-	186,701
Motor vehicle and other excise taxes.....	115,405	(36,106)	79,299
User fees.....	136	-	136
Departmental and other.....	257,986	(45,831)	212,155
Special assessments.....	92,729	-	92,729
Intergovernmental.....	990,020	-	990,020
Loans.....	320,108	-	320,108
Total.....	<u>\$ 2,199,989</u>	<u>\$ (134,544)</u>	<u>\$ 2,065,445</u>

At June 30, 2008, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User fees.....	\$ 337,789	\$ -	\$ 337,789
Intergovernmental.....	26,049	-	26,049
	<u>\$ 363,838</u>	<u>\$ -</u>	<u>\$ 363,838</u>

Governmental funds report *deferred 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 fiscal year, the various components of *deferred 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.....	\$ 219,288	\$ -	\$ 219,288
Tax liens.....	186,701	-	186,701
Tax foreclosures.....	95,799	-	95,799
Motor vehicle and other excise taxes.....	79,299	-	79,299
User fees.....	136	-	136
Departmental and other.....	181,479	30,676	212,155
Intergovernmental.....	720,270	-	720,270
Loans.....	-	320,108	320,108
Total.....	<u>\$ 1,482,972</u>	<u>\$ 350,784</u>	<u>\$ 1,833,756</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,579,635	\$ -	\$ -	\$ 1,579,635
Construction in progress.....	565,927	260,844	-	826,771
Total capital assets not being depreciated.....	<u>2,145,562</u>	<u>260,844</u>	<u>-</u>	<u>2,406,406</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	12,761,304	42,920	-	12,804,224
Machinery and equipment.....	3,795,023	614,154	-	4,409,177
Infrastructure.....	25,938,535	595,751	-	26,534,286
Vehicles.....	127,295	-	-	127,295
Total capital assets being depreciated.....	<u>42,622,157</u>	<u>1,252,825</u>	<u>-</u>	<u>43,874,982</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(5,544,413)	(298,679)	-	(5,843,092)
Machinery and equipment.....	(2,510,523)	(250,361)	-	(2,760,884)
Infrastructure.....	(13,322,024)	(778,220)	-	(14,100,244)
Vehicles.....	(127,295)	-	-	(127,295)
Total accumulated depreciation.....	<u>(21,504,255)</u>	<u>(1,327,260)</u>	<u>-</u>	<u>(22,831,515)</u>
Total capital assets being depreciated, net.....	<u>21,117,902</u>	<u>(74,435)</u>	<u>-</u>	<u>21,043,467</u>
Total governmental activities capital assets, net.....	<u>\$ 23,263,464</u>	<u>\$ 186,409</u>	<u>\$ -</u>	<u>\$ 23,449,873</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 46,722	\$ -	\$ -	\$ 46,722
Construction in progress.....	104,381	42,675	-	147,056
Total capital assets not being depreciated.....	151,103	42,675	-	193,778
<u>Capital assets being depreciated:</u>				
Buildings.....	287,371	-	-	287,371
Machinery and equipment.....	661,048	4,733	-	665,781
Infrastructure.....	7,196,940	-	-	7,196,940
Vehicles.....	53,891	34,187	-	88,078
Total capital assets being depreciated.....	8,199,250	38,920	-	8,238,170
<u>Less accumulated depreciation for:</u>				
Buildings.....	(90,539)	(3,466)	-	(94,005)
Machinery and equipment.....	(285,848)	(23,389)	-	(309,237)
Infrastructure.....	(2,170,702)	(79,269)	-	(2,249,971)
Vehicles.....	(32,882)	(8,851)	-	(41,733)
Total accumulated depreciation.....	(2,579,971)	(114,975)	-	(2,694,946)
Total capital assets being depreciated, net.....	5,619,279	(76,055)	-	5,543,224
Total water activities capital assets, net.....	\$ 5,770,382	\$ (33,380)	\$ -	\$ 5,737,002

	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.....	-	20,751	-	20,751
Total capital assets not being depreciated.....	24,741	20,751	-	45,492
<u>Capital assets being depreciated:</u>				
Buildings.....	1,289,311	-	-	1,289,311
Machinery and equipment.....	365,260	4,733	-	369,993
Infrastructure.....	2,045,514	-	-	2,045,514
Vehicles.....	26,617	-	-	26,617
Total capital assets being depreciated.....	3,726,702	4,733	-	3,731,435
<u>Less accumulated depreciation for:</u>				
Buildings.....	(1,170,004)	(9,902)	-	(1,179,906)
Machinery and equipment.....	(161,270)	(25,477)	-	(186,747)
Infrastructure.....	(547,807)	(44,230)	-	(592,037)
Vehicles.....	(26,617)	-	-	(26,617)
Total accumulated depreciation.....	(1,905,698)	(79,609)	-	(1,985,307)
Total capital assets being depreciated, net.....	1,821,004	(74,876)	-	1,746,128
Total sewer activities capital assets, net.....	\$ 1,845,745	\$ (54,125)	\$ -	\$ 1,791,620

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

**Governmental Activities:**

General government.....	\$ 28,471
Public safety.....	148,651
Education.....	249,240
Public works.....	882,178
Airport.....	9,512
Human services.....	4,667
Culture and recreation.....	4,541
Total depreciation expense - governmental activities.....	\$ 1,327,260

**Business-Type Activities:**

Water.....	\$ 114,975
Sewer.....	79,609
Total depreciation expense - business-type activities.....	\$ 194,584

**NOTE 5 – INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2008, are summarized as follows:

Transfers Out:	Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Internal Service Fund	
General Fund.....	\$ -	\$ 28,815	\$ 1,392	\$ 30,207 (1)
Nonmajor Governmental Funds.....	<u>172,491</u>	<u>33,906</u>	<u>227,828</u>	<u>434,225 (2)</u>
Total.....	<u>\$ 172,491</u>	<u>\$ 62,721</u>	<u>\$ 229,220</u>	<u>\$ 464,432</u>

- (1) Represents budgeted transfers out of the general fund to various special revenue funds and the Health Insurance Trust Fund.
- (2) Represents budgeted transfers out of various special revenue funds to the General Fund and the Health Insurance Trust Fund.

**NOTE 6 – CAPITAL LEASES**

The Town has entered into a lease agreement to finance the acquisition of a fire department ambulance and three police vehicles. These lease agreement qualifies as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payment as of the inception date. The following identifies the asset acquired through a capital lease agreement:

Asset:	Governmental Activities
Machinery and equipment.....	\$ 241,265
Less: accumulated depreciation.....	<u>(89,293)</u>
	<u>\$ 151,972</u>

The future minimum lease obligation and the net present value of the minimum payments at June 30, 2008, are as follows:

Fiscal Years Ending June 30,	Governmental Activities
2009.....	\$ 41,506
2010.....	<u>9,446</u>
Total minimum lease payments.....	<u>50,952</u>
Less: amounts representing interest.....	<u>(3,703)</u>
Present value of minimum lease payments.....	<u>\$ 47,249</u>

#### NOTE 7 – SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2008, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2007	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2008
Governmental Funds:							
BAN	Highway Garage.....	3.85	9/26/08	\$ 153,000	\$ -	\$ 52,000	\$ 101,000 (1)
RAN	Fire Truck.....	3.68	2/11/08	-	450,000	450,000	-
RAN	Tully Fire Station.....	3.68	2/11/08	-	1,300,000	1,300,000	-
BAN	Tully Fire Station.....	2.30	2/12/09	-	110,000	-	110,000
BAN	Lake Avenue Construction....	2.30	2/12/09	-	<u>50,000</u>	-	<u>50,000</u>
Total Governmental Funds...				<u>\$ 153,000</u>	<u>\$ 1,910,000</u>	<u>\$ 1,802,000</u>	<u>\$ 261,000</u>
Enterprise Funds:							
BAN	Sewer.....	2.30	2/12/09	<u>\$ -</u>	<u>\$ 380,000</u>	<u>\$ -</u>	<u>\$ 380,000</u>

- (1) On September 26, 2008, the Town paid down \$52,000 on this BAN and rolled the remaining balance of \$49,000 into a BAN that has a due date of September 25, 2009, with an interest rate of 2.46%.

Since the due date on the rolled over BAN is after the end of the next fiscal year, the \$49,000 due on September 25, 2009 meets the GASB criteria for treatment as long-term debt. Therefore the governmental debt is reported as a long-term liability for the government-wide statements.

#### NOTE 8 – LONG-TERM DEBT

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

Details related to the outstanding indebtedness at June 30, 2008, and the debt service requirements are as follows:

#### Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
Fire Pumper/Tanker.....	4.5	\$ 25,000	\$ -	\$ 25,000	\$ -
Airpark Industrial Park.....	5.0	46,800	-	11,700	35,100
F.H. Elem School Refunding Bond.....	4 - 4.25	355,000	-	245,000	110,000
F.H. Elem School FHA USDA Loan.....	6.0	99,440	-	33,160	66,280
Capping & Closing Landfill.....	4.5 - 4.6	660,000	-	60,000	600,000
Comm. Septic Management Program.....	4.0 - 5.0	76,964	-	6,414	70,550
State House Note - School Equipment.....	3.5	36,000	-	12,000	24,000
Highway Sander.....	4.4	93,000	-	18,600	74,400
Landfill Compactor Truck.....	4.4	87,000	-	17,400	69,600
Total.....		\$ 1,479,204	\$ -	\$ 429,274	\$ 1,049,930

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

Fiscal Year	Principal	Interest	Total
2009.....	\$ 269,274	\$ 47,760	\$ 317,034
2010.....	159,234	35,446	194,680
2011.....	114,114	27,990	142,104
2012.....	102,414	23,025	125,439
2013.....	66,414	24,192	90,606
2014.....	66,414	15,591	82,005
2015.....	66,414	12,503	78,917
2016.....	66,413	9,414	75,827
2017.....	66,413	6,326	72,739
2018.....	66,413	3,241	69,654
2019.....	6,413	160	6,573
Total Governmental.....	\$ 1,049,930	\$ 205,648	\$ 1,255,578

**Bonds and Notes Payable Schedule – Sewer Enterprise Fund**

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2007</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2008</u>
Brookside Sewer Project.....	4.5 - 4.6	\$ 110,000	\$ -	\$ 10,000	\$ 100,000
WPAT Sewer Facility Plan.....	4.0 - 5.0	126,100	-	9,400	116,700
Total.....		<u>\$ 236,100</u>	<u>\$ -</u>	<u>\$ 19,400</u>	<u>\$ 216,700</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 19,700	\$ 9,972	\$ 29,672
2010.....	19,900	9,052	28,952
2011.....	20,200	8,077	28,277
2012.....	20,500	7,086	27,586
2013.....	15,600	11,313	26,913
2014.....	20,900	5,618	26,518
2015.....	21,300	4,589	25,889
2016.....	21,600	3,542	25,142
2017.....	22,000	2,478	24,478
2018.....	22,300	1,403	23,703
2019.....	12,700	318	13,018
Total Sewer.....	<u>\$ 216,700</u>	<u>\$ 63,448</u>	<u>\$ 280,148</u>

The Town is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for \$26,049 of principal and \$53,256 for interest costs. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$37,395. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2008 principal and interest subsidy totaled \$1,886 and \$7,906, 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, 2008, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
WWTP/Sewer Replace Line.....	\$ 200,000
Tully Fire Station Construction.....	1,300,000
Tully Fire Station Design.....	25,000
Total.....	<u>\$ 1,525,000</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2008, the following changes occurred in long-term liabilities:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
<b>Governmental Funds</b>					
Long-Term Bonds and Notes.....	\$ 1,632,204	\$ -	\$ 533,274	\$ 1,098,930	\$ 269,274
Compensated Absences.....	66,426	161,288	57,600	170,114	170,114
Capital Lease Obligations.....	90,469	26,619	69,839	47,249	38,388
Total governmental activity long-term liabilities.....	<u>\$ 1,789,099</u>	<u>\$ 187,907</u>	<u>\$ 660,713</u>	<u>1,316,293</u>	<u>\$ 477,776</u>
<b>Enterprise Funds</b>					
Long-Term Bonds and Notes.....	\$ 236,100	\$ -	\$ 19,400	\$ 216,700	\$ 19,700
Compensated Absences.....	12,384	24,860	12,384	24,860	24,860
Total business-type activity long-term liabilities.....	<u>\$ 248,484</u>	<u>\$ 24,860</u>	<u>\$ 31,784</u>	<u>\$ 241,560</u>	<u>\$ 44,560</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 fiscal years.

The Town is self-insured for its health insurance activities. Health 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.

*Health Insurance*

The estimate of Incurred But Not Reported (IBNR) claims based on an estimate of claims incurred but unpaid at year end. At June 30, 2008, the amount of the liability for health insurance claims totaled \$160,000. This liability is the best estimate based on available information. The Town purchases individual stop loss insurance for claims in excess of the coverage provided by the Town in the amount of \$60,000 per claim. Changes in the reported liability since July 1, 2006, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2007.....	\$ 118,000	\$ 1,706,082	\$ (1,673,355)	\$ 150,727
Fiscal Year 2008.....	150,727	1,817,673	(1,808,400)	160,000

**NOTE 10 – PENSION PLAN**

*Plan Description* - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Franklin County Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$898,000 for the fiscal year ended June 30, 2008, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. 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 Franklin County Retirement Board and are borne by the System. The System issues a publicly available un-audited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 278 Main Street, Suite 311, Greenfield, MA 01301.

*Funding Policy* - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute \$658,662, \$633,077, and \$637,337 for fiscal years ended June 30, 2008, 2007, and 2006, respectively. Chapter 32 of the MGL governs the contributions of plan members and the Town.

**NOTE 11 – COMMITMENTS**

The Town is currently committed to fund approximately \$1,325,000 for the design and construction of the new Tully Fire Station.

**NOTE 12 – 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 Single Audit Act Amendments of 1996 through June 30, 2008, 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, 2008, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2008.

**NOTE 13 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2008, the following GASB pronouncements were implemented:

- The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The standards in this statement currently do not apply and therefore did not impact the basic financial statements.
- The GASB issued Statement #50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This GASB changed the disclosures related to pensions.
- The GASB issued Statement #52, *Land and Other Real Estate Held as Investments by Endowments*, which is required to be implemented in fiscal year 2009. The standards in this statement require all investments in land and real estate in permanent and similar funds to be reported at fair value. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issue Statement #53, *Accounting and Financial Reporting for Derivative Instruments*, which is required to be implemented in fiscal year 2010. The standards requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. Management elected to implement this standard early and this standard did not impact the basic financial statements.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2009. Management expects that this pronouncement will require additional disclosure and impact 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**

FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		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.....	\$ 6,888,011	\$ 6,888,011	\$ 6,891,351	\$ -	\$ 3,340
Tax liens.....	-	-	138,477	-	138,477
Motor vehicle and other excise taxes.....	700,250	700,250	678,825	-	(21,425)
Charges for services.....	130,000	130,000	141,089	-	11,089
Penalties and interest on taxes.....	100,000	100,000	104,566	-	4,566
Payments in lieu of taxes.....	3,286	3,286	3,286	-	-
Intergovernmental.....	7,757,851	7,757,851	7,772,799	-	14,948
Departmental and other.....	941,100	941,100	705,135	-	(235,965)
Investment income.....	80,000	80,000	53,584	-	(26,416)
Miscellaneous.....	-	-	270,720	-	270,720
<b>TOTAL REVENUES.....</b>	<b>16,600,498</b>	<b>16,600,498</b>	<b>16,759,832</b>	<b>-</b>	<b>159,334</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	841,289	897,079	825,456	3,970	67,653
Public safety.....	1,771,505	1,903,343	1,891,010	313	12,020
Education.....	9,220,073	9,213,056	9,211,753	-	1,303
Public works.....	960,718	1,051,857	1,175,387	2,200	(125,730)
Airport.....	124,128	139,582	134,582	618	4,382
Human services.....	87,701	111,755	93,758	-	17,997
Culture and recreation.....	272,524	275,406	274,866	483	57
Pension benefits.....	658,662	658,662	658,662	-	-
Employee benefits.....	1,673,489	1,786,307	1,785,119	-	1,188
State and county charges.....	414,391	413,800	453,097	-	(39,297)
Debt service:					
Principal.....	462,860	469,274	469,274	-	-
Interest.....	206,696	314,522	314,522	-	-
<b>TOTAL EXPENDITURES.....</b>	<b>16,694,036</b>	<b>17,234,643</b>	<b>17,287,486</b>	<b>7,584</b>	<b>(60,427)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(93,538)</b>	<b>(634,145)</b>	<b>(527,654)</b>	<b>(7,584)</b>	<b>98,907</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in.....	47,013	326,891	326,891	-	-
Transfers out.....	-	(30,207)	(30,207)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>47,013</b>	<b>296,684</b>	<b>296,684</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(46,525)</b>	<b>(337,461)</b>	<b>(230,970)</b>	<b>(7,584)</b>	<b>98,907</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>439,377</b>	<b>439,377</b>	<b>439,377</b>	<b>439,377</b>	<b>(439,377)</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 392,852</b>	<b>\$ 101,916</b>	<b>\$ 208,407</b>	<b>\$ 431,793</b>	<b>\$ (340,470)</b>

See notes to required supplementary information

# ***Retirement System Schedules of Funding Progress and Employer Contributions***

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The schedule of employer contributions, presented as required supplementary information, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

**Franklin Regional Retirement System  
Schedule of Funding Progress**

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/08	\$ 77,859	\$ 105,972	\$ 28,113	73.5%	\$ 30,302	92.8%
01/01/06	61,539	91,823	30,284	67.0%	26,229	115.5%
01/01/03	41,299	72,770	31,471	56.8%	23,638	133.1%
01/01/01	42,002	57,235	15,233	73.4%	17,923	85.0%
01/01/98	41,568	64,535	22,967	64.4%	15,254	150.6%

The Town's share of the UAAL, as of January 1, 2006, is approximately 14.74%

See notes to required supplementary information.

**Franklin Regional Retirement System  
Schedule of Employer Contributions**

Plan Year Ended December 31	System Wide			Town of Orange	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2005	\$ 3,923,420	\$ 3,923,420	100%	\$ 557,994	14.22%
2006	4,127,192	4,127,192	100%	637,337	15.44%
2007	4,295,275	4,295,275	100%	633,077	14.74%

The Town's Actual Contributions equaled 100% of its required contributions for each year presented.

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 fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal 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 fiscal year 2008 approved budget authorized approximately \$16.7 million in appropriations and other amounts to be raised. During fiscal year 2008, Town Meeting also approved supplemental appropriations totaling approximately \$571,000.

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 fiscal year ended June 30, 2008, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$	(230,970)
<u>Basis of accounting differences:</u>		
Increase in revenues due to on-behalf payments.....		897,891
Increase in expenditures due to on-behalf payments.....		(897,891)
Increase in revenues due to MWPAT subsidies.....		3,375
Increase in expenditures due to MWPAT subsidies.....		(3,375)
Net change in revenues in recording 60 day receipts.....		<u>(30,976)</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	\$	<u>(261,946)</u>

C. Appropriation Deficits

During fiscal year 2008, actual expenditures exceeded appropriations for public works for snow and ice and state and county charges. The snow and ice deficit will be funded in fiscal 2009 via the tax levy. State and county charges is a legal deficit created solely by the Commonwealth and not under the control of the Town.

**NOTE B – PENSION PLAN**

The Town contributes to the Franklin Regional Retirement System ("System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Franklin County Retirement Board. The System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Valuation Date.....	January 1, 2008
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Approximate level percent of payroll, closed
Remaining Amortization Period.....	17 years for the fresh start retirement benefits sched for the 2006 ERI, and 10 years for the 2005 ERI.
Asset Valuation Method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	8.00%
Projected salary increases.....	4.75%
Cost of living adjustments.....	3% for the first \$12,000 of retir

Plan Membership:

Retired participants and beneficiaries receiving benefits.....	404
Inactive Participants.....	631
Active participants.....	<u>1,227</u>
Total.....	<u><u>2,262</u></u>