

TOWN OF FRANKLIN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

Town of Franklin, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Franklin, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Franklin, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Franklin, Massachusetts, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

March 11, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Franklin we offer readers this narrative overview and analysis of the financial activities of the Town of Franklin for the fiscal year ended June 30, 2014.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

Both 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, health and human services, and culture and recreation. The business-type activities include sewer, water and solid waste activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. 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.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for sewer, water and solid waste operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, water and solid waste operations. The sewer and water funds are considered major funds.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$202,827,224 (i.e., net position), a change of \$29,232,444 in comparison to the prior year.
- As of the close of the current fiscal year, governmental activities reported unrestricted net position of \$(17,756,888), a change of \$(5,104,002), in comparison to the prior year. This change is primarily due to an increase in the unfunded other post-employment benefits liability of \$5,433,494.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$38,308,475, a change of \$25,250,769 in comparison to the prior year. This change is primarily due to activity associated with the ongoing High School construction project, which is funded by MSBA grant revenues and bond proceeds. The project is expected to be completed in 2015.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$10,407,862, a change of \$1,640,881 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$91,869,425, a change of \$43,987,975 in comparison to the prior year. This increase is due to a fiscal year 2014 bond issuance totaling \$48,990,000 for the High School construction project and water line infrastructure improvements.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 46,468	\$ 47,610	\$ 15,478	\$ 13,059	\$ 61,946	\$ 60,669
Noncurrent assets	<u>222,744</u>	<u>173,415</u>	<u>57,668</u>	<u>57,325</u>	<u>280,412</u>	<u>230,740</u>
Total assets	269,212	221,025	73,146	70,384	342,358	291,409
Current liabilities	12,512	36,658	1,828	4,226	14,340	40,884
Noncurrent liabilities	112,726	68,234	12,462	8,696	125,188	76,930
Deferred inflows of resources	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>-</u>
Total liabilities	125,241	104,892	14,290	12,922	139,531	117,814
Net position:						
Net investment in capital	150,017	117,879	45,826	46,405	195,843	164,284
Restricted	11,711	10,906	-	-	11,711	10,906
Unrestricted	<u>(17,757)</u>	<u>(12,652)</u>	<u>13,030</u>	<u>11,057</u>	<u>(4,727)</u>	<u>(1,595)</u>
Total net position	<u>\$ 143,971</u>	<u>\$ 116,133</u>	<u>\$ 58,856</u>	<u>\$ 57,462</u>	<u>\$ 202,827</u>	<u>\$ 173,595</u>

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 6,332	\$ 6,137	\$ 13,418	\$ 12,893	\$ 19,750	\$ 19,030
Operating grants and contributions	42,529	41,259	-	-	42,529	41,259
General revenues:						
Property taxes	61,168	57,839	-	-	61,168	57,839
Excises	5,455	5,104	-	-	5,455	5,104
Penalties, interest, and other taxes	283	329	-	-	283	329
Grants and contributions not restricted to specific programs	33,683	17,096	-	-	33,683	17,096
Investment income	353	100	20	23	373	123
Miscellaneous	<u>1,586</u>	<u>294</u>	<u>8</u>	<u>10</u>	<u>1,594</u>	<u>304</u>
Total revenues	<u>151,389</u>	<u>128,158</u>	<u>13,446</u>	<u>12,926</u>	<u>164,835</u>	<u>141,084</u>
Expenses:						
General government	9,859	12,602	-	-	9,859	12,602
Public safety	10,336	9,971	-	-	10,336	9,971
Education	74,621	72,676	-	-	74,621	72,676
Public works	6,363	6,805	-	-	6,363	6,805
Human services	869	834	-	-	869	834
Culture and recreation	1,446	1,365	-	-	1,446	1,365
Employee benefits	13,380	12,924	-	-	13,380	12,924
Interest on long-term debt	3,223	1,980	-	-	3,223	1,980
Intergovernmental	4,653	4,589	-	-	4,653	4,589
Sewer	-	-	3,733	4,438	3,733	4,438
Water	-	-	4,567	4,253	4,567	4,253
Sanitation	-	-	<u>2,055</u>	<u>1,707</u>	<u>2,055</u>	<u>1,707</u>
Total expenses	<u>124,750</u>	<u>123,746</u>	<u>10,355</u>	<u>10,398</u>	<u>135,105</u>	<u>134,144</u>
Change in net position before transfers	26,639	4,412	3,091	2,528	29,730	6,940
Transfers in (out)	<u>1,199</u>	<u>1,402</u>	<u>(1,697)</u>	<u>(1,652)</u>	<u>(498)</u>	<u>(250)</u>
Change in net position	27,838	5,814	1,394	876	29,232	6,690
Net position - beginning of year	<u>116,133</u>	<u>110,319</u>	<u>57,462</u>	<u>56,586</u>	<u>173,595</u>	<u>166,905</u>
Net position - end of year	<u>\$ 143,971</u>	<u>\$ 116,133</u>	<u>\$ 58,856</u>	<u>\$ 57,462</u>	<u>\$ 202,827</u>	<u>\$ 173,595</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$202,827,224, a change of \$29,232,444 from the prior year.

The largest portion of net position \$195,843,047 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$11,710,743 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$(4,726,566).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$27,838,498. Key elements of this change are as follows:

General fund revenues and transfers in excess of expenditures and transfers out	\$ 2,552,905
High School construction fund change in fund balance, net of capital additions	30,466,378
Nonmajor governmental funds change in funds balance, net of capital additions	1,399,067
Depreciation expense in excess of principal debt service expense	(1,810,098)
Capital additions funded by operating cash	2,935,973
Increase in net OPEB obligation	(5,433,494)
MSBA grants recognized in prior years	(825,934)
Change in accrued interest on long-term debt	(748,556)
Other	<u>(697,743)</u>
Total	<u>\$ 27,838,498</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$1,393,946. Key elements of this change are as follows:

Sewer operations	\$ 800,073
Water operations	762,198
Solid waste operations	<u>(168,325)</u>
Total	<u>\$ 1,393,946</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$38,308,475, a change of \$25,250,769 in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and other financing sources in excess of expenditures and transfers out	\$ 2,552,905
High School construction MSBA grant revenues and other financing sources in excess of expenditures	22,003,645
Special revenue fund revenues and transfers in excess of expenditures and transfers out	1,147,895
Nonmajor capital projects fund expenditures and transfers out in excess of revenues	(303,857)
Trust fund expenditures and transfers out in excess of revenues	<u>(149,819)</u>
Total	<u>\$ 25,250,769</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10,407,862, while total fund balance was \$17,933,507. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ⁽¹⁾	\$ 10,407,862	\$ 8,766,981	\$ 1,640,881	9.4%
Total fund balance	\$ 17,933,507	\$ 15,380,602	\$ 2,552,905	16.2%

⁽¹⁾ Includes \$4,894,603 in general stabilization and \$1,312,495 in budget stabilization funds.

The total fund balance of the general fund changed by \$2,552,905 during the current fiscal year. Key factors in this change are as follows:

Use of free cash, overlay surplus, and other reserves as a funding source	\$ (2,766,566)
Add back transfers to stabilization funds	<u>1,055,000</u>
Subtotal	(1,711,566)
Revenues in excess of budget	1,707,697
Expenditures less than budget	1,366,457
Other	<u>1,190,317</u>
Total	<u>\$ 2,552,905</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization	\$ 4,894,603	\$ 4,831,767	\$ 62,836
Budget stabilization	1,312,495	1,003,688	308,807
Public works stabilization	276,728	276,201	527
Senior center stabilization	910,207	351,301	558,906
Athletic fields stabilization	454,038	351,301	102,737
Fire truck stabilization	277,103	175,650	101,453
Traffic signal stabilization	<u>4,585</u>	<u>4,574</u>	<u>11</u>
Total	<u>\$ 8,129,759</u>	<u>\$ 6,994,482</u>	<u>\$ 1,135,277</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$13,030,322, a change of \$1,973,040 in comparison to the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$3,236,442. Major reasons for this change include:

\$ 77,438	appropriated to complete roadwork and other related infrastructure work at Spring Valley Estates/Brielle Way; funded by a transfer from the Forfeited Performance Bond special revenue account.
326,500	appropriated for the purchase of land off Cottontail Lane; funded by a transfer from the Open Space expendable trust account.
5,083	appropriated to fund a deficit in the outside detail agency account; funded by free cash.
161,000	appropriated for the purchase of land at 92 Wachusett Street; funded by a transfer from the Open Space expendable trust account.
100,000	appropriated for the Athletic Fields Capital Improvement Stabilization Fund; funded by free cash.
200,000	appropriated for the Other Post Employment Benefits Trust Fund; funded by free cash.
100,000	appropriated for the Fire Truck Stabilization Fund; funded by free cash.

(continued)

(continued)

430,000	appropriated for the Senior Center Capital Improvement Stabilization Fund; funded by free cash.
1,377,921	appropriated for the 2014 Capital Improvement Plan; funded by free cash, overlay surplus, and a transfer from the King Street Reconstruction capital project fund.
150,000	appropriated for a recreation spray park at Fletcher Field; funded by free cash.
7,000	appropriated for the recreation programs budget; funded by free cash.
10,000	appropriated for the central services postage budget; funded by free cash.
500	appropriated for the zoning board of appeals budget; funded by free cash.
10,000	appropriated for the legal budget; funded by free cash.
280,000	appropriated for the snow & ice budget; funded by free cash.
1,000	appropriated for the comptroller budget; funded by free cash.
<u>\$ 3,236,442</u>	Total supplemental appropriations

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$278,759,764 (net of accumulated depreciation), a change of \$50,527,379 from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year include ongoing construction costs for the new high school, various building improvements, conservation land purchases, sewer and water system improvements, various street improvements, and the acquisition of vehicles, and equipment for various Town departments.

Additional information on capital assets can be found in the Notes to the Financial Statements.

Credit rating. During the fiscal year, the Town's Standard & Poor's credit rating was upgraded from AA to AA+.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$91,869,425, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to Financial Statements.

G. STABILIZATION FUNDS

In the late 1990s, the Town settled a legal case and received over six million dollars. The funds were paid to the Town over several years. All funds received from the settlement were voted into the general Stabilization Fund, resulting in a balance of over \$9,000,000 in the account. The Stabilization Fund, plus interest, may be appropriated at any Town Council meeting for any municipal purpose. The Town always maintained a “traditional” general fund stabilization account.

At that point, the Town created two new stabilization accounts to set aside funds for known future costs. The Town voted to appropriate \$1,100,000 to pay for the Town’s share of Town state-funded road projects and to replace a culvert. The second was a Debt Stabilization account to take the “peak” off the debt schedule the Town adopted in accordance with our fiscal policy on debt. The Debt Stabilization account served its intended purpose and no funds currently remain in the account. In FY11, the Town Council voted to increase the Public Works Stabilization account for future related projects.

The Town Council voted in FY 2004, 2007 and 2008 to use general stabilization funds to balance the annual operating budget. However, once the fund reached the minimum amount established by the Town Council’s fiscal policy (\$4.5 million or 5% of general operating budget), no other funds were used until FY2013, when the Town Council voted to use \$350,000 for the annual operating budget.

In FY12, the Town Council voted to establish three additional stabilization funds for future Town appropriations. These funds include the Senior Center Capital Improvements Stabilization Fund, the Athletic Field Capital Improvements Stabilization Fund, and the Fire Truck Stabilization Fund, all of which are reported as “Other Stabilization” in the table below.

In FY13, the Town Council voted to establish a Budget Stabilization Fund for the purpose of stabilizing future Town budgets. This new fund is reported in a separate column in the table below.

The table below sets forth stabilization fund balances at year-end for the last nine fiscal years (in thousands):

<u>As of June 30</u>	<u>Stabilization Fund Balance</u>	<u>Budget Stabilization</u>	<u>Debt Stabilization</u>	<u>Public Works Stabilization</u>	<u>Other Stabilization</u>	<u>Total Stabilization</u>
2014	\$ 4,895	\$ 1,312	\$ -	\$ 277	\$ 1,646	\$ 8,130
2013	\$ 4,832	\$ 1,004	\$ -	\$ 276	\$ 882	\$ 6,994
2012	\$ 5,210	\$ -	\$ -	\$ 276	\$ 380	\$ 5,866
2011	\$ 4,779	\$ -	\$ -	\$ 275	\$ 5	\$ 5,059
2010	\$ 4,647	\$ -	\$ 380	\$ 130	\$ -	\$ 5,157
2009	\$ 4,573	\$ -	\$ 403	\$ 738	\$ -	\$ 5,714
2008	\$ 4,137	\$ -	\$ 568	\$ 792	\$ -	\$ 5,497
2007	\$ 5,224	\$ -	\$ 552	\$ 924	\$ -	\$ 6,700
2006	\$ 7,008	\$ -	\$ 535	\$ 1,172	\$ -	\$ 8,715

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Franklin'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:

Comptroller's Office
355 East Central Street
Franklin, Massachusetts 02038

TOWN OF FRANKLIN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 32,580,366	\$ 11,979,261	\$ 44,559,627
Investments	11,133,812	-	11,133,812
Receivables, net of allowance for uncollectibles:			
Property taxes	460,444	-	460,444
Excises	315,272	-	315,272
User fees	378,846	3,468,774	3,847,620
Intergovernmental	1,356,666	-	1,356,666
Betterments	1,210	30,240	31,450
Other assets	241,157	-	241,157
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	559,623	-	559,623
Intergovernmental	825,933	-	825,933
Betterments	13,696	253,747	267,443
Land and construction in progress	99,558,492	4,348,360	103,906,852
Capital assets being depreciated, net of accumulated depreciation	<u>121,786,681</u>	<u>53,066,231</u>	<u>174,852,912</u>
TOTAL ASSETS	269,212,198	73,146,613	342,358,811
LIABILITIES			
Current:			
Warrants and accounts payable	4,261,291	518,336	4,779,627
Accrued liabilities	2,260,798	82,004	2,342,802
Tax refunds payable	340,600	-	340,600
Other liabilities	562,283	-	562,283
Current portion of long-term liabilities:			
Bonds payable	4,998,159	1,221,808	6,219,967
Compensated absences	88,797	6,097	94,894
Noncurrent:			
Bonds payable, net of current portion	73,802,327	11,847,131	85,649,458
Compensated absences, net of current portion	1,687,134	115,841	1,802,975
Other post-employment benefits	37,236,673	499,206	37,735,879
DEFERRED INFLOWS OF RESOURCES	<u>3,102</u>	<u>-</u>	<u>3,102</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	125,241,164	14,290,423	139,531,587
NET POSITION			
Net investment in capital assets	150,017,179	45,825,868	195,843,047
Restricted for:			
Grants and other statutory restrictions	8,326,362	-	8,326,362
Permanent funds:			
Nonexpendable	503,930	-	503,930
Expendable	2,880,451	-	2,880,451
Unrestricted	<u>(17,756,888)</u>	<u>13,030,322</u>	<u>(4,726,566)</u>
TOTAL NET ASSETS	\$ <u>143,971,034</u>	\$ <u>58,856,190</u>	\$ <u>202,827,224</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:						
General government	\$ 9,859,386	\$ 218,350	\$ 1,797,066	\$ (7,843,970)	\$ -	\$ (7,843,970)
Public safety	10,335,469	1,769,423	375,177	(8,190,869)	-	(8,190,869)
Education	74,621,155	3,516,058	40,048,685	(31,056,412)	-	(31,056,412)
Public works	6,362,983	144,014	117,236	(6,101,733)	-	(6,101,733)
Health and human services	868,977	132,986	127,177	(608,814)	-	(608,814)
Culture and recreation	1,445,800	551,725	55,901	(838,174)	-	(838,174)
Insurance and benefits	13,379,930	-	7,306	(13,372,624)	-	(13,372,624)
Interest	3,222,988	-	-	(3,222,988)	-	(3,222,988)
Intergovernmental	4,653,232	-	-	(4,653,232)	-	(4,653,232)
Total Governmental Activities	124,749,920	6,332,556	42,528,548	(75,888,816)	-	(75,888,816)
Business-Type Activities:						
Sewer services	3,732,704	5,186,696	-	-	1,453,992	1,453,992
Water services	4,567,305	6,274,016	-	-	1,706,711	1,706,711
Sanitation services	2,054,952	1,957,079	-	-	(97,873)	(97,873)
Total Business-Type Activities	10,354,961	13,417,791	-	-	3,062,830	3,062,830
Total	\$ 135,104,881	\$ 19,750,347	\$ 42,528,548	(75,888,816)	3,062,830	(72,825,986)
General Revenues and transfers:						
Property taxes				61,168,462	-	61,168,462
Excises				5,455,257	-	5,455,257
Penalties, interest and other taxes				282,904	-	282,904
Grants and contributions not restricted to specific programs				33,682,728	-	33,682,728
Investment income				352,823	20,356	373,179
Miscellaneous				1,586,315	7,585	1,593,900
Transfers, net				1,198,825	(1,696,825)	(498,000)
Total general revenues				103,727,314	(1,668,884)	102,058,430
Change in Net Position				27,838,498	1,393,946	29,232,444
Net Position:						
Beginning of year				116,132,536	57,462,244	173,594,780
End of year				\$ 143,971,034	\$ 58,856,190	\$ 202,827,224

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	General Fund	High School Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 13,672,194	\$ 10,460,342	\$ 8,447,830	\$ 32,580,366
Investments	6,802,260	-	4,331,552	11,133,812
Receivables:				
Property taxes	1,239,746	-	-	1,239,746
Excises	583,458	-	-	583,458
Special assessments	38	-	-	38
User fees	541,209	-	-	541,209
Intergovernmental	-	-	530,732	530,732
Other assets	<u>240,757</u>	<u>-</u>	<u>-</u>	<u>240,757</u>
TOTAL ASSETS	<u>\$ 23,079,662</u>	<u>\$ 10,460,342</u>	<u>\$ 13,310,114</u>	<u>\$ 46,850,118</u>
LIABILITIES				
Warrants and accounts payable	\$ 865,803	\$ 3,054,607	\$ 340,881	\$ 4,261,291
Accrued liabilities	1,188,822	-	-	1,188,822
Tax refunds payable	340,600	-	-	340,600
Other liabilities	<u>562,283</u>	<u>-</u>	<u>-</u>	<u>562,283</u>
TOTAL LIABILITIES	2,957,508	3,054,607	340,881	6,352,996
DEFERRED INFLOWS OF RESOURCES	2,188,647	-	-	2,188,647
FUND BALANCES				
Nonspendable	240,757	-	503,930	744,687
Restricted	-	7,405,735	11,413,587	18,819,322
Committed	5,533,655	-	1,462,295	6,995,950
Assigned	1,751,233	-	-	1,751,233
Unassigned	<u>10,407,862</u>	<u>-</u>	<u>(410,579)</u>	<u>9,997,283</u>
TOTAL FUND BALANCES	<u>17,933,507</u>	<u>7,405,735</u>	<u>12,969,233</u>	<u>38,308,475</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 23,079,662</u>	<u>\$ 10,460,342</u>	<u>\$ 13,310,114</u>	<u>\$ 46,850,118</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total governmental fund balances	\$ 38,308,475
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	221,345,173
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,550,585
<ul style="list-style-type: none">• MSBA reimbursements for contracted assistance projects are not receivable in the current period; therefore, they are not reported in the governmental funds.	1,651,867
<ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(1,071,976)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, and other post-employment benefits, are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(117,813,090)</u>
Net position of governmental activities	<u>\$ 143,971,034</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	High School Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 61,204,514	\$ -	\$ -	\$ 61,204,514
Excises	5,543,496	-	-	5,543,496
Penalties, interest and other taxes	258,773	-	431	259,204
Special assessments	2,440	-	-	2,440
Charges for services	1,978,964	-	3,893,698	5,872,662
Licenses and permits	931,358	-	-	931,358
Intergovernmental	40,027,291	29,396,178	6,104,369	75,527,838
Fines and forfeitures	159,488	-	80,663	240,151
Contributions	-	-	533,706	533,706
Investment income	339,308	-	43,125	382,433
Miscellaneous	32,072	-	817,089	849,161
	<u>110,477,704</u>	<u>29,396,178</u>	<u>11,473,081</u>	<u>151,346,963</u>
Total Revenues				
Expenditures:				
Current:				
General government	9,256,880	-	1,287,122	10,544,002
Public safety	9,196,435	-	185,264	9,381,699
Education	65,035,884	-	7,147,507	72,183,391
Public works	4,125,496	-	238,294	4,363,790
Health and human services	522,817	-	186,529	709,346
Culture and recreation	1,132,302	-	39,673	1,171,975
Insurance and benefits	7,940,369	-	6,068	7,946,437
Debt service	6,557,469	-	-	6,557,469
Intergovernmental	4,653,231	-	-	4,653,231
Capital outlay	2,094,655	52,392,533	739,426	55,226,614
	<u>110,515,538</u>	<u>52,392,533</u>	<u>9,829,883</u>	<u>172,737,954</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	(37,834)	(22,996,355)	1,643,198	(21,390,991)
Other Financing Sources (Uses):				
Bond proceeds	-	43,990,000	-	43,990,000
Bond premium	1,452,935	-	-	1,452,935
Transfers in	2,608,778	1,010,000	60,974	3,679,752
Transfers out	(1,470,974)	-	(1,009,953)	(2,480,927)
	<u>2,590,739</u>	<u>45,000,000</u>	<u>(948,979)</u>	<u>46,641,760</u>
Total Other Financing Sources (Uses)				
Change in fund balance	2,552,905	22,003,645	694,219	25,250,769
Fund Balance, at Beginning of Year	<u>15,380,602</u>	<u>(14,597,910)</u>	<u>12,275,014</u>	<u>13,057,706</u>
Fund Balance, at End of Year	<u>\$ 17,933,507</u>	<u>\$ 7,405,735</u>	<u>\$ 12,969,233</u>	<u>\$ 38,308,475</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2014

Net changes in fund balances - total governmental funds	\$ 25,250,769
<ul style="list-style-type: none"> • 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: 	
Capital outlay purchases	56,093,554
Depreciation	(5,936,735)
<ul style="list-style-type: none"> • 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. 	
	(584,370)
<ul style="list-style-type: none"> • Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. 	
	(825,934)
<ul style="list-style-type: none"> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: 	
Issuance of debt	(43,990,000)
Repayments of debt	4,126,637
<ul style="list-style-type: none"> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	
	(748,556)
<ul style="list-style-type: none"> • Some expenses reported in the Statement of Activities, such as compensated absences and other post-employment benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	
	<u>(5,546,867)</u>
Change in net position of governmental activities	\$ <u>27,838,498</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Transfers In:				
Property taxes	\$ 60,759,716	\$ 60,759,716	\$ 60,759,716	\$ -
Motor vehicle excise	3,517,000	3,517,000	4,544,568	1,027,568
Other excise	895,000	895,000	998,928	103,928
Penalties, interest and other taxes	258,000	258,000	261,213	3,213
Charges for services	1,639,500	1,639,500	1,978,965	339,465
Licenses and permits	840,000	840,000	931,358	91,358
Intergovernmental	31,329,435	31,329,435	31,326,010	(3,425)
Fines and forfeitures	115,000	115,000	159,488	44,488
Investment income	190,000	190,000	259,030	69,030
Miscellaneous	-	-	32,072	32,072
Transfers in	1,260,100	1,967,453	1,967,453	-
Total Revenues and Transfers In	100,803,751	101,511,104	103,218,801	1,707,697
Expenditures and Transfers Out:				
General government	8,924,944	9,464,282	9,290,177	174,105
Public safety	9,662,608	9,662,608	9,431,596	231,012
Education	56,486,638	56,486,638	56,441,321	45,317
Public works	3,998,901	4,356,339	4,136,595	219,744
Health and human services	548,291	551,133	522,817	28,316
Culture and recreation	1,117,119	1,157,432	1,132,576	24,856
Debt service	6,216,397	6,216,397	6,210,519	5,878
Insurance and benefits	8,508,597	8,442,104	7,993,558	448,546
Capital outlay	500,000	2,027,921	2,023,700	4,221
Intergovernmental	4,889,668	4,889,668	4,653,232	236,436
Transfers out	1,641,000	2,476,083	2,528,057	(51,974)
Total Expenditures and Transfers Out	102,494,163	105,730,605	104,364,148	1,366,457
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(1,690,412)	(4,219,501)	(1,145,347)	3,074,154
Other Financing Sources:				
Use of bond premium	1,452,935	1,452,935	1,452,935	-
Use of free cash and overlay surplus	15,000	2,544,089	2,544,089	-
Use of other fund balance reserves	222,477	222,477	222,477	-
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ 3,074,154	\$ 3,074,154

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Water Fund	Non-major Solid Waste Fund	
ASSETS				
Current:				
Cash and short-term investments	\$ 3,061,620	\$ 8,312,619	\$ 605,022	\$ 11,979,261
Receivables, net of allowance for uncollectibles:				
User fees	1,464,678	1,802,266	201,830	3,468,774
Betterments	<u>30,240</u>	<u>-</u>	<u>-</u>	<u>30,240</u>
Total current assets	4,556,538	10,114,885	806,852	15,478,275
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Betterments	253,747	-	-	253,747
Land and construction in progress	679,558	3,621,871	46,931	4,348,360
Other capital assets, net of accumulated depreciation	<u>10,968,503</u>	<u>41,658,828</u>	<u>438,900</u>	<u>53,066,231</u>
Total noncurrent assets	<u>11,901,808</u>	<u>45,280,699</u>	<u>485,831</u>	<u>57,668,338</u>
TOTAL ASSETS	16,458,346	55,395,584	1,292,683	73,146,613
LIABILITIES				
Current:				
Warrants and accounts payable	65,497	288,961	163,878	518,336
Accrued liabilities	9,201	72,803	-	82,004
Current portion of long-term liabilities:				
Bonds payable	121,727	1,100,081	-	1,221,808
Compensated absences	<u>2,484</u>	<u>3,161</u>	<u>452</u>	<u>6,097</u>
Total current liabilities	198,909	1,465,006	164,330	1,828,245
Noncurrent:				
Bonds payable, net of current portion	1,025,980	10,821,151	-	11,847,131
Compensated absences, net of current portion	47,190	60,062	8,589	115,841
Other post-employment benefits	<u>188,216</u>	<u>310,990</u>	<u>-</u>	<u>499,206</u>
Total noncurrent liabilities	<u>1,261,386</u>	<u>11,192,203</u>	<u>8,589</u>	<u>12,462,178</u>
TOTAL LIABILITIES	1,460,295	12,657,209	172,919	14,290,423
NET POSITION				
Net investment in capital assets	10,500,354	34,839,683	485,831	45,825,868
Unrestricted	<u>4,497,697</u>	<u>7,898,692</u>	<u>633,933</u>	<u>13,030,322</u>
TOTAL NET POSITION	<u>\$ 14,998,051</u>	<u>\$ 42,738,375</u>	<u>\$ 1,119,764</u>	<u>\$ 58,856,190</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Water Fund	Non-major Solid Waste Fund	
Operating Revenues:				
Charges for services	\$ 5,186,696	\$ 6,274,016	\$ 1,957,079	\$ 13,417,791
Total Operating Revenues	5,186,696	6,274,016	1,957,079	13,417,791
Operating Expenses:				
Personnel	625,095	934,571	60,732	1,620,398
Non-personnel	488,284	1,709,921	1,914,368	4,112,573
Depreciation	418,908	1,499,260	79,852	1,998,020
Intergovernmental	2,157,040	-	-	2,157,040
Total Operating Expenses	3,689,327	4,143,752	2,054,952	9,888,031
Operating Income	1,497,369	2,130,264	(97,873)	3,529,760
Nonoperating Revenues (Expenses):				
Interest income	5,600	13,293	1,463	20,356
Miscellaneous revenues	-	-	7,585	7,585
Interest expense	(43,377)	(423,553)	-	(466,930)
Total Nonoperating Revenues (Expenses)	(37,777)	(410,260)	9,048	(438,989)
Income Before Transfers	1,459,592	1,720,004	(88,825)	3,090,771
Transfers:				
Transfers in	40,000	-	-	40,000
Transfers out	(699,519)	(957,806)	(79,500)	(1,736,825)
Total Other Financing Sources (Uses)	(659,519)	(957,806)	(79,500)	(1,696,825)
Change in Net Position	800,073	762,198	(168,325)	1,393,946
Net Position at Beginning of Year	14,197,978	41,976,177	1,288,089	57,462,244
Net Position at End of Year	\$ 14,998,051	\$ 42,738,375	\$ 1,119,764	\$ 58,856,190

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Water Fund	Non-major Solid Waste Fund	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 5,117,104	\$ 6,302,245	\$ 1,951,631	\$ 13,370,980
Payments to vendors	(2,643,074)	(1,650,443)	(1,752,766)	(6,046,283)
Payments to employees	(619,677)	(952,579)	(60,752)	(1,633,008)
Net Cash Provided By Operating Activities	1,854,353	3,699,223	138,113	5,691,689
<u>Cash Flows From Noncapital Financing Activities:</u>				
Miscellaneous revenues	-	-	7,585	7,585
Transfer in	40,000	-	-	40,000
Transfer out	(699,519)	(957,806)	(79,500)	(1,736,825)
Net Cash (Used For) Noncapital Financing Activities	(659,519)	(957,806)	(71,915)	(1,689,240)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(120,823)	(2,247,757)	-	(2,368,580)
Proceeds of bonds	-	5,000,000	-	5,000,000
Payments on notes	-	(3,000,000)	-	(3,000,000)
Principal payments on bonds	(121,727)	(753,661)	-	(875,388)
Interest expense	(44,734)	(388,899)	-	(433,633)
Net Cash (Used For) Capital and Related Financing Activities	(287,284)	(1,390,317)	-	(1,677,601)
<u>Cash Flows From Investing Activities:</u>				
Investment income	5,600	13,293	1,463	20,356
Net Change in Cash and Short-Term Investments	913,150	1,364,393	67,661	2,345,204
Cash and Short-Term Investments, Beginning of Year	2,148,470	6,948,226	537,361	9,634,057
Cash and Short-Term Investments, End of Year	\$ 3,061,620	\$ 8,312,619	\$ 605,022	\$ 11,979,261
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income	\$ 1,497,369	\$ 2,130,264	\$ (97,873)	\$ 3,529,760
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	418,908	1,499,260	79,852	1,998,020
Changes in assets and liabilities:				
User fees receivable	(69,593)	28,229	(5,448)	(46,812)
Warrants and accounts payable	2,250	59,478	161,602	223,330
Other liabilities	5,419	(18,008)	(20)	(12,609)
Net Cash Provided By Operating Activities	\$ 1,854,353	\$ 3,699,223	\$ 138,113	\$ 5,691,689

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2014

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 20,510	\$ 14,147	\$ 534,030
Investments	806,416	105,076	-
Departmental receivable	-	-	82,601
Other assets	-	-	<u>1,607,813</u>
Total Assets	<u>826,926</u>	<u>119,223</u>	<u>2,224,444</u>
<u>LIABILITIES AND NET POSITION</u>			
Warrants payable	-	-	50,479
Other liabilities	-	-	<u>2,173,965</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>2,224,444</u>
<u>NET POSITION</u>			
Total net position held in trust	<u>\$ 826,926</u>	<u>\$ 119,223</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2014

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose <u>Trust Funds</u>
Additions:		
Contributions	\$ -	\$ 28,800
Investment income	<u>8,064</u>	<u>957</u>
Total additions	8,064	29,757
Deductions:		
Scholarship payments	<u>-</u>	<u>8,300</u>
Total deductions	-	8,300
Other financing sources:		
Transfers in	<u>498,000</u>	<u>-</u>
Total other financing sources	<u>498,000</u>	<u>-</u>
Net increase	506,064	21,457
Net position:		
Beginning of year	<u>320,862</u>	<u>97,766</u>
End of year	<u>\$ 826,926</u>	<u>\$ 119,223</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Franklin (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The Town is a municipal corporation governed by an elected Town Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2014, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter 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.

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*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *High School Construction Fund* accounts for activity associated with the construction of the new high school.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with

a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- Sewer Fund
- Water Fund

The *Other Post-Employment Benefits Trust Fund* is used to account for monies the Town is setting aside to fund its future post-retirement health insurance obligations.

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.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one

year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the stabilization funds and trust funds consist of bank certificates of deposit, U.S. Treasury notes and agencies, corporate bonds, and mutual funds. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as “Proposition 2½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2014 tax levy reflected an excess capacity of \$688.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 50
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

2. **Stewardship, Compliance, and Accountability**

A. Budgetary Information

The Town Administrator presents, on behalf of the Finance Committee, an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by Town Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at Town Council meetings as required by changing conditions.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 110,477,704	\$ 110,515,538
Other financing sources/uses (GAAP Basis)	<u>4,061,713</u>	<u>1,470,974</u>
Subtotal (GAAP Basis)	114,539,417	111,986,512
Adjust tax revenue to accrual basis	(444,798)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(5,364,557)
Add end-of-year appropriation carryforwards to expenditures	-	5,362,226
Reverse effect of non-budgeted State contributions for teacher's retirement	(8,701,281)	(8,701,281)
Reverse effect of combining stabilization funds with general fund per GASB 54	(80,277)	1,055,000
Record use of bond premium	(1,452,935)	-
Reclass non-budgeted items	<u>(641,325)</u>	<u>26,248</u>
Budgetary Basis	<u>\$ 103,218,801</u>	<u>\$ 104,364,148</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2014:

School grants	\$ (84,349)
Town grants	<u>(326,230)</u>
	<u>\$ (410,579)</u>

The temporary deficits in these funds will be eliminated through future intergovernmental revenues.

3. **Cash and Short-Term Investments**

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess."

As of June 30, 2014, \$22,343,418 of the Town's bank balance of \$47,861,090 was exposed to custodial credit risk as uninsured or uncollateralized. These funds are primarily held in four highly rated banks according to the Veribanc Report. All of the banks are rated GREEN/***.

4. **Investments**

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA):

<u>Investment Type</u>	Fair <u>Value</u>	<u>Rating as of Year-end</u>					Not <u>Rated</u>
		<u>Aaa</u>	<u>A1</u>	<u>A3</u>	<u>Baa1</u>		
U.S. Treasury notes	\$ 2,687	\$ 2,687	\$ -	\$ -	\$ -	\$ -	
Federal agency securities	5,307	5,307	-	-	-	-	
Corporate bonds	1,132	31	323	201	258	319	
Certificates of deposits	2,284	-	-	-	-	2,284	
Mutual funds	635	-	-	-	-	635	
Total investments	<u>\$ 12,045</u>	<u>\$ 8,025</u>	<u>\$ 323</u>	<u>\$ 201</u>	<u>\$ 258</u>	<u>\$ 3,238</u>	

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Per the Town's investment policy, the Treasurer will review the financial institution's financial statements and the background of the Advisor. Further, all securities held by a third-party custodian will be held in the Town's name and tax identification number.

As of June 30, 2014, \$1,045,253 of the Town's investments are exposed to custodial credit risk because the securities are uninsured, unregistered, and/or held by the Town's investment banks, which are also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC insurance.

C. Concentration of Credit Risk

The Town will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Town investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows (in thousands):

Federal Home Loan Bank	\$ 2,343
Federal National Mortgage Association	1,202
Federal Home Loan Mortgage	<u>1,564</u>
Total	<u>\$ 5,109</u>

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's investment policy states the Town will manage interest rate risk by managing duration in the account.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Treasury notes	\$ 2,687	\$ -	\$ 1,955	\$ 732	\$ -
Federal agency securities	5,307	76	4,728	210	293
Corporate bonds	1,132	101	1,017	14	-
Certificates of deposit	<u>2,284</u>	<u>891</u>	<u>1,393</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,410</u>	<u>\$ 1,068</u>	<u>\$ 9,093</u>	<u>\$ 956</u>	<u>\$ 293</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town's policy for foreign currency risk states the Town will not invest in any investment exposed to foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st 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 a quarterly basis 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 they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2014 consist of the following:

Real Estate			
2014	\$	399,624	
2013		6,840	
2012		4,267	
Prior		<u>2,278</u>	
			413,009
Personal Property			
2014		13,933	
2013		16,890	
2012		13,341	
Prior		<u>92,818</u>	
			136,982
Tax Liens			677,691
Deferred Taxes			10,269
Other			<u>1,795</u>
Total	\$		<u><u>1,239,746</u></u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 219,679	\$ -
Excises	\$ 268,186	\$ -
User fees	\$ 162,363	\$ -
Sewer	\$ -	\$ 44,481
Water	\$ -	\$ 53,600
Trash	\$ -	\$ 27,557

7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as certain other fiscal year 2014 grant funds. Future receipts are as follows:

	<u>MSBA</u>	<u>Other</u>	<u>Total</u>
2015	\$ 825,934	\$ 530,732	\$ 1,356,666
2016	<u>825,933</u>	<u>-</u>	<u>825,933</u>
	<u>\$ 1,651,867</u>	<u>\$ 530,732</u>	<u>\$ 2,182,599</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 143,823	\$ 709	\$ -	\$ 144,532
Machinery, equipment, and furnishings	10,198	508	(20)	10,686
Infrastructure	<u>75,214</u>	<u>1,062</u>	<u>-</u>	<u>76,276</u>
Total capital assets, being depreciated	229,235	2,279	(20)	231,494
Less accumulated depreciation for:				
Buildings and improvements	(54,605)	(3,663)	-	(58,268)
Machinery, equipment, and furnishings	(6,605)	(687)	20	(7,272)
Infrastructure	<u>(42,580)</u>	<u>(1,587)</u>	<u>-</u>	<u>(44,167)</u>
Total accumulated depreciation	<u>(103,790)</u>	<u>(5,937)</u>	<u>20</u>	<u>(109,707)</u>
Total capital assets, being depreciated, net	125,445	(3,658)	-	121,787
Capital assets, not being depreciated:				
Land	16,515	612	-	17,127
Construction in progress	<u>29,229</u>	<u>53,202</u>	<u>-</u>	<u>82,431</u>
Total capital assets, not being depreciated	<u>45,744</u>	<u>53,814</u>	<u>-</u>	<u>99,558</u>
Governmental activities capital assets, net	<u>\$ 171,189</u>	<u>\$ 50,156</u>	<u>\$ -</u>	<u>\$ 221,345</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 281	\$ -	\$ -	\$ 281
Machinery, equipment, and furnishings	1,363	-	-	1,363
Infrastructure	<u>95,081</u>	<u>2,369</u>	<u>-</u>	<u>97,450</u>
Total capital assets, being depreciated	96,725	2,369	-	99,094
Less accumulated depreciation for:				
Buildings and improvements	(109)	(7)	-	(116)
Machinery, equipment, and furnishings	(968)	(98)	-	(1,066)
Infrastructure	<u>(42,953)</u>	<u>(1,893)</u>	<u>-</u>	<u>(44,846)</u>
Total accumulated depreciation	<u>(44,030)</u>	<u>(1,998)</u>	<u>-</u>	<u>(46,028)</u>
Total capital assets, being depreciated, net	52,695	371	-	53,066
Capital assets, not being depreciated:				
Land	<u>4,348</u>	<u>-</u>	<u>-</u>	<u>4,348</u>
Total capital assets, not being depreciated	<u>4,348</u>	<u>-</u>	<u>-</u>	<u>4,348</u>
Business-type activities capital assets, net	<u>\$ 57,043</u>	<u>\$ 371</u>	<u>\$ -</u>	<u>\$ 57,414</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 126
Public safety	711
Education	2,690
Public works	1,963
Health and human services	156
Culture and recreation	<u>291</u>
Total depreciation expense - governmental activities	<u>\$ 5,937</u>
Business-Type Activities:	
Sewer	\$ 419
Water	1,499
Solid waste	<u>80</u>
Total depreciation expense - business-type activities	<u>\$ 1,998</u>

9. Warrants and Accounts Payable

Warrants payable represent 2014 expenditures paid by July 15, 2014, as permitted by law. Accounts payable represent additional 2014 expenditures paid after July 15, 2014.

10. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2014:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
High School construction	\$ 24,000,000	\$ -	\$ (24,000,000)	\$ -
Water infrastructure	<u>3,000,000</u>	<u>-</u>	<u>(3,000,000)</u>	<u>-</u>
Total	<u>\$ 27,000,000</u>	<u>\$ -</u>	<u>\$ (27,000,000)</u>	<u>\$ -</u>

11. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds

have been issued for both governmental and business-type activities.
 General obligation bonds currently outstanding are as follows:

	Original	Serial	Interest	Amount
	Issue	Maturities	Rate(s) %	Outstanding
<u>Governmental Activities:</u>	<u>Issue</u>	<u>Through</u>	<u>Rate(s) %</u>	<u>as of</u>
				<u>6/30/14</u>
School building remodeling	04/01/04	11/15/14	3.72	\$ 135,000
School project refunding	04/01/04	11/15/15	2.00 - 5.00	1,134,596
Outdoor recreational facilities	03/15/05	03/15/15	3.25 - 5.50	250,000
Outdoor recreational facilities	03/15/05	03/15/15	3.25 - 5.50	50,000
Keller-Sullivan School	03/15/05	03/15/15	3.25 - 5.50	365,000
Horace Mann School (1)	03/15/06	03/15/26	3.75 - 5.00	3,240,000
Horace Mann School (2)	03/15/06	03/15/26	3.75 - 5.00	360,000
DPW garage	03/15/06	03/15/24	3.75 - 5.00	380,000
DPW garage	03/15/06	03/15/26	3.75 - 5.00	2,100,000
DPW garage	04/01/07	04/01/27	3.45 - 4.13	1,805,687
General obligation (various uses)	03/01/09	03/01/28	2.00 - 5.00	12,560,000
School building repairs	05/02/12	06/30/22	2.00 - 4.00	1,600,000
General obligation refunding 2002	12/15/11	06/30/23	2.00 - 4.00	302,000
General obligation refunding 2003	12/15/11	06/30/23	2.00 - 4.00	3,499,000
General obligation refunding 2004	05/02/12	06/30/22	2.00 - 4.00	1,207,000
General obligation refunding 2005	05/02/12	06/30/26	2.00 - 4.00	5,822,203
High School construction	08/15/13	06/15/38	4.13 - 5.00	<u>43,990,000</u>
Total Governmental Activities:				<u>\$ 78,800,486</u>

	Original	Serial	Interest	Amount
	Issue	Maturities	Rate(s) %	Outstanding
<u>Business-Type Activities:</u>	<u>Issue</u>	<u>Through</u>	<u>Rate(s) %</u>	<u>as of</u>
				<u>6/30/14</u>
MWPAT Title V	09/28/01	08/01/19	4.50 - 5.75	\$ 10,207
Sewer	04/01/04	11/15/15	3.72	50,000
Sewer	03/15/06	03/15/26	3.75 - 5.00	300,000
Sewer refunding 2002	12/15/11	06/30/23	2.00 - 4.00	340,000
Sewer refunding 2004	05/02/12	06/30/22	2.00 - 4.00	447,500
Water	04/01/04	11/15/14	3.72	75,000
Water treatment facility refunding	04/01/04	11/15/15	2.00 - 5.00	350,404
Water treatment facility DW-02-12	11/15/04	08/01/24	2.50 - 5.25	3,559,216
Water mains	03/15/05	03/15/25	4.26	787,798
Water treatment plant	04/01/07	04/01/27	3.45 - 4.125	195,000
Water improvements	04/01/07	04/01/27	3.45 - 4.125	604,314
Water refunding 2002	12/15/11	06/30/23	2.00 - 4.00	679,000
Water refunding 2004	05/02/12	06/30/22	2.00 - 4.00	670,500
Water line replacement	08/15/13	06/15/28	4.00 - 5.00	<u>5,000,000</u>
Total Business-Type Activities:				<u>\$ 13,068,939</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 4,998,159	\$ 3,207,415	\$ 8,205,574
2016	4,530,062	3,012,981	7,543,043
2017	4,268,812	2,832,217	7,101,029
2018	4,276,350	2,648,505	6,924,855
2019	4,308,350	2,477,290	6,785,640
2020-2024	19,914,732	9,955,297	29,870,029
2025-2029	13,214,021	6,268,824	19,482,845
Thereafter	<u>23,290,000</u>	<u>5,496,263</u>	<u>28,786,263</u>
Total	<u>\$ 78,800,486</u>	<u>\$ 35,898,792</u>	<u>\$ 114,699,278</u>

The general funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2014.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,221,808	\$ 535,134	\$ 1,756,942
2016	1,209,475	483,028	1,692,503
2017	1,050,305	427,880	1,478,185
2018	1,047,349	381,854	1,429,203
2019	1,059,719	338,964	1,398,683
2020-2024	5,156,075	1,009,397	6,165,472
2025-2029	<u>2,324,208</u>	<u>183,224</u>	<u>2,507,432</u>
Total	<u>\$ 13,068,939</u>	<u>\$ 3,359,481</u>	<u>\$ 16,428,420</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
<u>Governmental Activities</u>						
Bonds payable	\$ 38,937	\$ 43,990	\$ (4,127)	\$ 78,800	\$ (4,998)	\$ 73,802
Other:						
Compensated absences	1,706	75	(5)	1,776	(89)	1,687
Other post-employment benefits	<u>31,803</u>	<u>7,673</u>	<u>(2,239)</u>	<u>37,237</u>	<u>-</u>	<u>37,237</u>
Totals	<u>\$ 72,446</u>	<u>\$ 51,738</u>	<u>\$ (6,371)</u>	<u>\$ 117,813</u>	<u>\$ (5,087)</u>	<u>\$ 112,726</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 8,945	\$ 5,000	\$ (876)	\$ 13,069	\$ (1,222)	\$ 11,847
Other:						
Compensated absences	128	4	(10)	122	(6)	116
Other post-employment benefits	<u>505</u>	<u>121</u>	<u>(127)</u>	<u>499</u>	<u>-</u>	<u>499</u>
Totals	<u>\$ 9,578</u>	<u>\$ 5,125</u>	<u>\$ (1,013)</u>	<u>\$ 13,690</u>	<u>\$ (1,228)</u>	<u>\$ 12,462</u>

12. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2014:

	<u>Entity-wide Basis</u>	<u>Fund Basis</u>
	Governmental	Governmental Funds
	<u>Activities</u>	<u>General Fund</u>
Uncommitted taxes	\$ 3,102	\$ 3,102
Committed taxes	-	1,060,878
Committed excises	-	583,458
Billed user fees	-	541,209
Total	<u>\$ 3,102</u>	<u>\$ 2,188,647</u>

13. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

14. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town has implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2014:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes capital projects funded by grants and bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority (Town Council). This fund balance classification includes general fund non-lapsing capital appropriations approved by Town Council, capital improvement stabilization funds (now reported as part of the general fund per GASB 54), and various special revenue and expendable trust funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned – Represents amounts that are available to be spent in future periods. This fund balance classification also includes general and budgetary stabilization funds set aside by Town Council vote for future use (now reported as part of the general fund per GASB 54) and temporary deficits in other governmental funds.

Following is a breakdown of the Town's fund balances at June 30, 2014:

	General Fund	High School Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Prepaid expenditures	\$ 240,757	\$ -	\$ -	\$ 240,757
Nonexpendable permanent funds	-	-	503,930	503,930
Total Nonexpendable	240,757	-	503,930	744,687
Restricted				
Special revenue funds:				
School revolving funds	-	-	2,600,225	2,600,225
School circuit breaker	-	-	2,121,655	2,121,655
School choice	-	-	1,126,264	1,126,264
School grants and other funds	-	-	123,011	123,011
Town revolving funds	-	-	693,461	693,461
Town grants and other funds	-	-	914,869	914,869
Receipts reserved	-	-	746,877	746,877
Capital projects funds:				
High School construction	-	7,405,735	-	7,405,735
Other bonded projects	-	-	206,775	206,775
Expendable trust funds:				
Affordable housing	-	-	1,297,574	1,297,574
Open space acquisition	-	-	1,064,636	1,064,636
Other trust funds	-	-	518,240	518,240
Total Restricted	-	7,405,735	11,413,587	18,819,322

	<u>General Fund</u>	<u>High School Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Committed				
Reserve for continuing resolutions	3,610,994	-	-	3,610,994
Capital improvement stabilization funds	1,922,661	-	-	1,922,661
Expendable insurance reserves	-	-	1,462,295	1,462,295
Total Committed	5,533,655	-	1,462,295	6,995,950
Assigned				
Budgetary encumbrances	1,751,233	-	-	1,751,233
Total Assigned	1,751,233	-	-	1,751,233
Unassigned				
General fund	4,200,764	-	-	4,200,764
General stabilization fund	4,894,603	-	-	4,894,603
Budget stabilization fund	1,312,495	-	-	1,312,495
Special revenue funds:				
School grants	-	-	(84,349)	(84,349)
Town grants	-	-	(326,230)	(326,230)
Total Unassigned	10,407,862	-	(410,579)	9,997,283
Total Fund Balance	\$ 17,933,507	\$ 7,405,735	\$ 12,969,233	\$ 38,308,475

15. Interfund Transfers

The government reports interfund transfers between many of its funds. The sum of all transfers presented in the table below agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2014:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 2,608,778	\$ 1,470,974
High school construction fund	1,010,000	-
Nonmajor Funds:		
Special revenue funds	9,000	340,038
Capital project funds	-	142,415
Expendable trust funds	51,974	527,500
Subtotal Nonmajor Funds	60,974	1,009,953
Total Governmental Funds	3,679,752	2,480,927
<u>Business-Type Funds</u>		
Sewer fund	40,000	699,519
Water fund	-	957,806
Solid waste fund	-	79,500
Subtotal Business-type funds	40,000	1,736,825 ⁽¹⁾
<u>Fiduciary Funds</u>		
Other post-employment benefits trust	498,000	-
Subtotal Fiduciary Funds	498,000	-
Grand Total	\$ 4,217,752	\$ 4,217,752

⁽¹⁾ Includes \$997,500 of indirect costs, \$641,325 reimbursement to General Fund for debt service costs for the DPW garage/storage building project, and \$98,000 transfer to OPEB Trust.

16. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town Counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

17. **Post-Employment Healthcare and Life Insurance Benefits**

Other Post-Employment Benefits

The Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2013, the actuarial valuation date, approximately 502 retirees and 955 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute between 32% and 50% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2014 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2013.

Normal Cost	\$ 4,394,917
Amortization of unfunded actuarially accrued liability	<u>3,181,382</u>
Annual Required Contribution (ARC)	7,576,299
Interest on net OPEB obligation	1,302,344
Adjustment to ARC	<u>(1,085,287)</u>
Annual OPEB cost	7,793,356
Expected benefit payments (pay as you go)	(1,868,076)
Contributions to OPEB Trust	<u>(498,000)</u>
Increase in net OPEB obligation	5,427,280
Net OPEB obligation - beginning of year	<u>32,308,599</u>
Net OPEB obligation - end of year	<u>\$ 37,735,879</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 7,793,356	30%	\$ 37,735,879
2013	\$ 7,354,066	28%	\$ 32,308,599
2012	\$ 7,737,626	23%	\$ 26,990,856

The Town's net OPEB obligation as of June 30, 2014 is recorded as a long-term liability on the Statement of Net Position.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 89,053,917
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>89,053,917</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	\$ <u>53,065,851</u>
UAAL as a percentage of covered payroll	<u>167.8%</u>

In fiscal year 2012, the Town established an Other Post-Employment Benefits Trust Fund to accumulate resources to fund future post-employment liabilities. Because of the timing of the Town's contributions, the June 30, 2014 assets of this trust, which are reported in the fiduciary funds Statement of Fiduciary Net Position, are not included in the actuarial results reported in the actuarial valuation as of June 30, 2013.

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was zero. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 7.5% which decreases to a 4.5% long-term rate for all healthcare benefits after eight years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

18. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

A. Plan Description

The Town contributes to the Norfolk Retirement System (the "System"), a cost-sharing multiple-employer defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Norfolk Retirement System at 480 Neponset Street, Canton, Massachusetts 02021.

B. 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 remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System

for the years ended June 30, 2014, 2013, and 2012 were \$3,662,597, \$3,506,741, and \$3,341,223, respectively, which were equal to its annual required contributions for each of these years.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11% contribute an additional 2% of salary in excess of \$30,000.

The Town's current year covered payroll for teachers and administrators was unknown.

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$8,701,281 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

19. Risk Management

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. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

20. Implementation of New GASB Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which the Town is required to implement in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by requiring the Town to recognize, as a liability and expense, its applicable portion of the Norfolk County Retirement System's (System) unfunded actuarially accrued liability (UAAL). As of June 30, 2014, the System's UAAL was \$550,913,993. The Town's portion of this unfunded liability is estimated to be \$45,725,861 (8.3%).

**TOWN OF FRANKLIN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2014

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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]
06/30/13	\$ -	\$ 89,054	\$ 89,054	0.0%	\$ 53,066	167.8%
06/30/11	\$ -	\$ 84,749	\$ 84,749	0.0%	\$ 52,999	159.9%
06/30/09	\$ -	\$ 79,942	\$ 79,942	0.0%	\$ 53,737	148.8%
06/30/07	\$ -	\$ 116,638	\$ 116,638	0.0%	N/A	N/A

**NORFOLK COUNTY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)**

**Employees' Retirement System
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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]
01/01/14	\$ 696,683	\$ 1,247,597	\$ 550,914	55.8%	\$ 246,723	223.3%
01/01/12	\$ 608,235	\$ 1,128,960	\$ 520,725	53.9%	\$ 229,095	227.3%
01/01/10	\$ 600,791	\$ 1,001,881	\$ 401,090	60.0%	\$ 223,333	179.6%
01/01/08	\$ 596,157	\$ 907,719	\$ 311,562	65.7%	\$ 223,815	139.2%

**Employees' Retirement System
Schedule of Employer Contributions**

Plan Year Ended	System Wide			Town of Franklin, MA	
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/13	\$ 44,800	\$ 44,026	98.3%	\$ 3,663	8.3%
12/31/12	\$ 42,715	\$ 42,233	98.9%	\$ 3,507	8.3%
12/31/11	\$ 41,207	\$ 40,293	97.8%	\$ 3,341	8.3%
12/31/10	\$ 42,794	\$ 39,084	91.3%	\$ 3,559	9.1%

See Independent Auditors' Report.