

TOWN OF FRANKLIN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	18
Proprietary Funds:	
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
Statement of Cash Flows	21
Fiduciary Funds:	
Statement of Fiduciary Net Assets	22
Statement of Changes in Fiduciary Net Assets	23
Notes to Financial Statements	24
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	47

INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Franklin, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Franklin, Massachusetts, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Franklin's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information appearing on page 47, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 17, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
February 17, 2010

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, 2009. Unless otherwise noted, all amounts are expressed in thousands.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (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 sanitation 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 sanitation operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for unemployment insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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 sanitation operations, both of which are considered to be 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 \$ 175,680 (i.e., net assets), a change of \$ (9,701) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 23,575, a change of \$ 20,940 in comparison with the prior year. The change is primarily from financing construction activity with bond proceeds.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 3,413, a change of \$ 233 in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 66,276, a change of \$ 12,313 in comparison to the prior year.

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.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 36,749	\$ 34,064	\$ 12,131	\$ 12,249	\$ 48,880	\$ 46,313
Capital assets	153,364	159,486	57,232	57,427	210,596	216,913
Total assets	190,113	193,550	69,363	69,676	259,476	263,226
Long-term liabilities outstanding	65,858	42,261	12,736	13,738	78,594	55,999
Bond anticipation notes	-	18,095	-	-	-	18,095
Other liabilities	4,216	2,972	986	779	5,202	3,751
Total liabilities	70,074	63,328	13,722	14,517	83,796	77,845
Net assets:						
Invested in capital assets, net	100,405	101,971	45,028	44,502	145,433	146,473
Restricted	11,009	7,973	-	-	11,009	7,973
Unrestricted	8,625	20,278	10,613	10,657	19,238	30,935
Total net assets	\$ 120,039	\$ 130,222	\$ 55,641	\$ 55,159	\$ 175,680	\$ 185,381

CHANGES IN NET ASSETS

	Governmental		Business-Type		Totals	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$ 6,739	\$ 6,591	\$ 11,610	\$ 13,069	\$ 18,349	\$ 19,660
Operating grants and contributions	8,768	4,975	-	-	8,768	4,975
Capital grants and contributions	588	594	-	-	588	594
General revenues:						
Property Taxes	50,118	48,097	-	-	50,118	48,097
Excises	3,704	4,197	-	-	3,704	4,197
Penalties, interest and other taxes	502	669	-	-	502	669
Grants and contributions not restricted to specific programs	35,367	43,142	-	-	35,367	43,142
Investment income	958	1,119	114	350	1,072	1,469
Miscellaneous	2,717	195	-	-	2,717	195
Total revenues	<u>109,461</u>	<u>109,579</u>	<u>11,724</u>	<u>13,419</u>	<u>121,185</u>	<u>122,998</u>
Expenses:						
General government	11,318	4,609	-	-	11,318	4,609
Public safety	9,705	9,294	-	-	9,705	9,294
Education	67,254	70,011	-	-	67,254	70,011
Public works	6,713	5,909	-	-	6,713	5,909
Human services	742	541	-	-	742	541
Culture and recreation	1,546	1,414	-	-	1,546	1,414
Employee benefits	18,018	6,584	-	-	18,018	6,584
Interest on long-term debt	2,233	2,285	-	-	2,233	2,285
Intergovernmental	3,772	3,617	-	-	3,772	3,617
Sewer	-	-	3,333	3,108	3,333	3,108
Water	-	-	4,428	4,323	4,428	4,323
Sanitation	-	-	1,824	1,928	1,824	1,928
Total expenses	<u>121,301</u>	<u>104,264</u>	<u>9,585</u>	<u>9,359</u>	<u>130,886</u>	<u>113,623</u>
Change in net assets before transfers	(11,840)	5,315	2,139	4,060	(9,701)	9,375
Transfers, net	<u>1,657</u>	<u>1,636</u>	<u>(1,657)</u>	<u>(1,636)</u>	<u>-</u>	<u>-</u>
Change in net assets	(10,183)	6,951	482	2,424	(9,701)	9,375
Net assets - beginning of year	<u>130,222</u>	<u>123,271</u>	<u>55,159</u>	<u>52,735</u>	<u>185,381</u>	<u>176,006</u>
Net assets - end of year	<u>\$ 120,039</u>	<u>\$ 130,222</u>	<u>\$ 55,641</u>	<u>\$ 55,159</u>	<u>\$ 175,680</u>	<u>\$ 185,381</u>

As noted earlier, net assets 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 assets were \$ 175,680, a change of \$ (9,701) from the prior year.

The largest portion of net assets \$ 145,433 reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment); 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 assets \$ 11,009 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 19,238 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (10,183). Key elements of this change are as follows:

General fund revenues over expenditures	\$ 202
Non-major fund in excess of revenues over expenditures	1,131
Stabilization fund revenues in excess of expenditures	116
Capital assets additions from current year revenues	2,529
MSBA grants	(1,445)
OPEB	(10,441)
Depreciation expense in excess of principal debt service expense	(1,606)
Other	<u>(669)</u>
Total	<u>\$ (10,183)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 482. Key elements of this change are as follows:

Sewer operations	\$ (28)
Water operations	275
Sanitation fund	<u>235</u>
Total	<u>\$ 482</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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 23,575, a change of \$ 20,940 in comparison with the prior year. Key elements of this change are as follows:

General fund expenditures and transfers out in excess of revenues and transfers in	\$ (220)
Trust fund revenues in excess of expenditures	674
Special revenue fund revenues and transfers in in excess of expenditures and transfers out	2,224
Capital projects fund revenues, transfers in, and bond proceeds in excess of expenditures and transfers out	17,890
Stabilization fund revenues and transfers in in excess of expenditures and transfers out	<u>372</u>
Total	<u>\$ 20,940</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 3,413, while total fund balance was \$ 6,281. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 3.5 percent of total general fund expenditures, while total fund balance represents 6.5 percent of that same amount.

The fund balance of the general fund changed by \$ (220) during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash and other available funds as a funding source	\$ (2,270)
Revenues less than budget	(2,782)
Expenditures less than budget	4,679
Other	<u>153</u>
Total	<u>\$ (220)</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 assets of the enterprise funds at the end of the year amounted to \$ 10,613, a change of \$ (44) in comparison with 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 \$ 3,504. Major reasons for these amendments include:

- \$ 300 appropriated for school expenditures, funded by taxes.
- \$ 14 appropriated for the repair of various trenches, funded by the Agency fund.
- \$ 18 appropriated for veteran benefits, funded by taxes.
- \$ 41 appropriated for the repair/removal of DelCarte open space dam, funded by free cash.
- \$ 35 appropriated for the purchase of a lawn mower, funded by free cash.
- \$ 7 appropriated for the costs of the Pond Street survey, funded by free cash.
- \$ 50 appropriated for the repair of the Town Common bank stand, funded by Stabilization fund.
- \$ 11 appropriated for street improvements, funded by Stabilization fund.
- \$ 900 transferred to the Stabilization fund, funded by free cash.
- \$ 14 appropriated for the costs of actuarial study for unfunded retiree health insurance obligation, funded by free cash.
- \$ 69 appropriated for DPW capital improvements, funded by Stabilization fund.
- \$ 175 appropriated for the pay down on ladder truck purchase, funded by free cash.
- \$ 1,075 appropriated for the capital plan, funded by free cash.
- \$ 789 appropriated for DPW for snow and ice and Veterans assistance, funded by taxes and the Stabilization fund.
- \$ 6 appropriated for the costs of title search, funded by free cash.

The budget and actual statement reflects an under collection of Intergovernmental revenue primarily resulting from State Aid (Chapter 70) reductions implemented by the Commonwealth in fiscal year 2009. The Chapter 70 reductions were partially offset by an American Recovery and Reinvestment Act (ARRA) grant which is reported in a separate major fund in accordance with the transparency requirements of the Act. The general fund revenue shortfall is offset by budgetary turn backs in education and employee benefits expenditures. The turn backs result from the Town transferring cost to the ARRA major fund.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 210,596 (net of accumulated depreciation), a change of \$ (6,317) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included ongoing construction design and costs for the Library, Central Fire Station, Senior Center and the new Public Works building, various street improvements, and the acquisition of vehicles for police, fire and public works.

Additional information on capital assets can be found in the footnotes to the financial statements.

Change in credit rating. During the fiscal year, the Standard & Poor's credit rating of Aa3 increased to a rating of AA.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 66,276, 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 footnotes to the financial statements.

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 ASSETS

JUNE 30, 2009

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 21,036,208	\$ 8,745,380	\$ 29,781,588
Investments	6,030,440	-	6,030,440
Receivables, net of allowance for uncollectibles:			
Property taxes	631,306	-	631,306
Excises	242,417	-	242,417
User fees	-	3,385,891	3,385,891
Intergovernmental	1,695,759	-	1,695,759
Departmental and other	1,258,784	-	1,258,784
Other assets	43,600	-	43,600
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	679,830	-	679,830
Intergovernmental	4,955,603	-	4,955,603
Deferred assets	174,800	-	174,800
Capital assets not being depreciated	14,819,174	4,348,360	19,167,534
Capital assets being depreciated, net of accumulated depreciation	<u>138,544,784</u>	<u>52,883,401</u>	<u>191,428,185</u>
TOTAL ASSETS	190,112,705	69,363,032	259,475,737
LIABILITIES			
Current:			
Warrants payable	2,506,581	764,613	3,271,194
Accrued and other liabilities	1,708,881	221,399	1,930,280
Current portion of long-term liabilities:			
Bonds payable	4,369,515	993,252	5,362,767
Other liabilities	86,012	7,878	93,890
Noncurrent:			
Bonds payable, net of current portion	49,328,076	11,585,329	60,913,405
OPEB liabilities	10,440,519	-	10,440,519
Other liabilities, net of current portion	<u>1,634,209</u>	<u>149,668</u>	<u>1,783,877</u>
TOTAL LIABILITIES	70,073,793	13,722,139	83,795,932
NET ASSETS			
Invested in capital assets, net of related debt	100,404,643	45,028,018	145,432,661
Restricted for:			
Grants and other statutory restrictions	6,407,179	-	6,407,179
Permanent funds:			
Nonexpendable	503,929	-	503,929
Expendable	4,097,913	-	4,097,913
Unrestricted	<u>8,625,248</u>	<u>10,612,875</u>	<u>19,238,123</u>
TOTAL NET ASSETS	\$ <u>120,038,912</u>	\$ <u>55,640,893</u>	\$ <u>175,679,805</u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 11,318,362	\$ 917,442	\$ 1,300,936	\$ -	\$ (9,099,984)	\$ -	\$ (9,099,984)
Public safety	9,705,178	1,785,080	140,219	-	(7,779,879)	-	(7,779,879)
Education	67,253,445	3,411,339	7,139,382	-	(56,702,724)	-	(56,702,724)
Public works	6,712,673	78,477	36,209	588,203	(6,009,784)	-	(6,009,784)
Health and human services	741,676	94,713	85,832	-	(561,131)	-	(561,131)
Culture and recreation	1,546,132	451,496	65,932	-	(1,028,704)	-	(1,028,704)
Employee benefits	18,017,991	-	-	-	(18,017,991)	-	(18,017,991)
Interest	2,233,014	-	-	-	(2,233,014)	-	(2,233,014)
Intergovernmental	3,772,231	-	-	-	(3,772,231)	-	(3,772,231)
Total Governmental Activities	<u>121,300,702</u>	<u>6,738,547</u>	<u>8,768,510</u>	<u>588,203</u>	<u>(105,205,442)</u>	<u>-</u>	<u>(105,205,442)</u>
Business-Type Activities:							
Sewer services	3,332,662	3,913,878	-	-	-	581,216	581,216
Water services	4,427,513	5,581,409	-	-	-	1,153,896	1,153,896
Sanitation services	1,824,399	2,114,861	-	-	-	290,462	290,462
Total Business-Type Activities	<u>9,584,574</u>	<u>11,610,148</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,025,574</u>	<u>2,025,574</u>
Total	<u>\$ 130,885,276</u>	<u>\$ 18,348,695</u>	<u>\$ 8,768,510</u>	<u>\$ 588,203</u>	<u>(105,205,442)</u>	<u>2,025,574</u>	<u>(103,179,868)</u>
General Revenues and transfers:							
Property taxes					50,117,517	-	50,117,517
Excises					3,703,902	-	3,703,902
Penalties, interest and other taxes					501,788	-	501,788
Grants and contributions not restricted to specific programs					35,366,828	-	35,366,828
Investment income					958,007	113,774	1,071,781
Miscellaneous					2,716,930	-	2,716,930
Transfers, net					1,656,930	(1,656,930)	-
Total general revenues					<u>95,021,902</u>	<u>(1,543,156)</u>	<u>93,478,746</u>
Change in Net Assets					(10,183,540)	482,418	(9,701,122)
Net Assets:							
Beginning of year					<u>130,222,452</u>	<u>55,158,475</u>	<u>185,380,927</u>
End of year					<u>\$ 120,038,912</u>	<u>\$ 55,640,893</u>	<u>\$ 175,679,805</u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

ASSETS	<u>General</u>	<u>Stabilization</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and short-term investments	\$ 9,783,363	\$ 3,835,698	\$ 7,357,135	\$ 20,976,196
Investments	-	2,074,827	3,955,613	6,030,440
Receivables:				
Property taxes	1,540,544	-	-	1,540,544
Excises	480,867	-	-	480,867
Intergovernmental	-	-	251,126	251,126
Departmental and other	<u>1,258,784</u>	<u>-</u>	<u>-</u>	<u>1,258,784</u>
TOTAL ASSETS	<u>\$ 13,063,558</u>	<u>\$ 5,910,525</u>	<u>\$ 11,563,874</u>	<u>\$ 30,537,957</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 2,326,419	\$ -	\$ 180,162	\$ 2,506,581
Accrued liabilities	1,046,728	-	-	1,046,728
Other liabilities	129,086	-	-	129,086
Deferred revenues	<u>3,280,195</u>	<u>-</u>	<u>-</u>	<u>3,280,195</u>
TOTAL LIABILITIES	6,782,428	-	180,162	6,962,590
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	2,183,411	-	-	2,183,411
Debt Service	684,259	-	-	684,259
Perpetual permanent funds	-	-	503,929	503,929
Unreserved:				
Undesignated, reported in:				
General fund	3,413,460	-	-	3,413,460
Special revenue funds	-	5,910,525	6,043,594	11,954,119
Capital project funds	-	-	738,276	738,276
Permanent funds	<u>-</u>	<u>-</u>	<u>4,097,913</u>	<u>4,097,913</u>
TOTAL FUND BALANCES	<u>6,281,130</u>	<u>5,910,525</u>	<u>11,383,712</u>	<u>23,575,367</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,063,558</u>	<u>\$ 5,910,525</u>	<u>\$ 11,563,874</u>	<u>\$ 30,537,957</u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2009

Total governmental fund balances	\$ 23,575,367
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	153,363,958
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not reported at the fund level	3,030,737
<ul style="list-style-type: none">• MSBA reimbursements for contracted assistance projects, are not receivable in the current period and, therefore, are not reported in the governmental funds.	6,400,236
<ul style="list-style-type: none">• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	60,012
<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.	(533,067)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, and OPEB, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(65,858,331)</u>
Net assets of governmental activities	<u><u>\$ 120,038,912</u></u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>ARRA Funds</u>	<u>Stabilization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 50,163,207	\$ -	\$ -	\$ -	\$ 50,163,207
Excise taxes	3,769,599	-	-	-	3,769,599
Penalties, interest and other taxes	507,246	-	-	-	507,246
Charges for services	1,996,683	-	-	3,656,925	5,653,608
Intergovernmental	36,811,762	3,021,023	-	3,558,106	43,390,891
Licenses and permits	682,366	-	-	-	682,366
Contributions	-	-	-	2,777,584	2,777,584
Fines and forfeitures	112,003	-	-	-	112,003
Investment income	856,997	-	115,809	(14,975)	957,831
Miscellaneous	2,602,774	-	-	114,155	2,716,929
Total Revenues	<u>97,502,637</u>	<u>3,021,023</u>	<u>115,809</u>	<u>10,091,795</u>	<u>110,731,264</u>
Expenditures:					
Current:					
General government	8,723,475	-	-	910,995	9,634,470
Public safety	9,327,818	-	-	306,720	9,634,538
Education	54,474,217	2,798,461	-	6,595,240	63,867,918
Public works	4,238,211	-	-	512,745	4,750,956
Health and human services	463,970	-	-	146,260	610,230
Culture and recreation	1,373,310	-	-	386,186	1,759,496
Employee benefits	7,271,469	222,562	-	14,431	7,508,462
Debt service	6,581,765	-	-	88,668	6,670,433
Intergovernmental	3,772,231	-	-	-	3,772,231
Capital outlay	1,074,271	-	-	-	1,074,271
Total Expenditures	<u>97,300,737</u>	<u>3,021,023</u>	<u>-</u>	<u>8,961,245</u>	<u>109,283,005</u>
Excess (deficiency) of revenues over expenditures	201,900	-	115,809	1,130,550	1,448,259
Other Financing Sources (Uses):					
Bond proceeds	-	-	-	17,895,000	17,895,000
Transfers in	2,366,120	-	900,000	1,828,233	5,094,353
Transfers out	(2,788,108)	-	(644,015)	(65,175)	(3,497,298)
Total Other Financing Sources (Uses)	<u>(421,988)</u>	<u>-</u>	<u>255,985</u>	<u>19,658,058</u>	<u>19,492,055</u>
Change in fund balance	(220,088)	-	371,794	20,788,608	20,940,314
Fund Balance, at Beginning of Year, reclassified	<u>6,501,218</u>	<u>-</u>	<u>5,538,731</u>	<u>(9,404,896)</u>	<u>2,635,053</u>
Fund Balance, at End of Year	<u>\$ 6,281,130</u>	<u>\$ -</u>	<u>\$ 5,910,525</u>	<u>\$ 11,383,712</u>	<u>\$ 23,575,367</u>

See notes to 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, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 20,940,314																		
<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: <table> <tr> <td style="padding-left: 40px;">Capital outlay purchases, net of disposals</td> <td style="text-align: right;">44,900</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(6,167,173)</td> </tr> </table> 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. <table> <tr> <td style="padding-left: 40px;"></td> <td style="text-align: right;">173,729</td> </tr> </table> 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. <table> <tr> <td style="padding-left: 40px;"></td> <td style="text-align: right;">(1,444,934)</td> </tr> </table> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table> <tr> <td style="padding-left: 40px;">Issuance of debt</td> <td style="text-align: right;">(17,895,000)</td> </tr> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">4,561,253</td> </tr> </table> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td style="padding-left: 40px;"></td> <td style="text-align: right;">(80,234)</td> </tr> </table> Some expenses reported in the Statement of Activities, such as OPEB and compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td style="padding-left: 40px;"></td> <td style="text-align: right;">(10,307,436)</td> </tr> </table> Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table> <tr> <td style="padding-left: 40px;"></td> <td style="text-align: right;"><u>(8,959)</u></td> </tr> </table> 	Capital outlay purchases, net of disposals	44,900	Depreciation	(6,167,173)		173,729		(1,444,934)	Issuance of debt	(17,895,000)	Repayments of debt	4,561,253		(80,234)		(10,307,436)		<u>(8,959)</u>	
Capital outlay purchases, net of disposals	44,900																		
Depreciation	(6,167,173)																		
	173,729																		
	(1,444,934)																		
Issuance of debt	(17,895,000)																		
Repayments of debt	4,561,253																		
	(80,234)																		
	(10,307,436)																		
	<u>(8,959)</u>																		
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(10,183,540)</u></u>																		

See notes to 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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 49,643,125	\$ 49,868,125	\$ 49,868,125	\$ -
Motor vehicle excise	4,000,000	4,000,000	3,769,599	(230,401)
Penalties, interest and other taxes	259,600	259,600	277,390	17,790
Intergovernmental	34,513,690	34,513,690	30,927,930	(3,585,760)
Licenses and permits	900,000	900,600	642,834	(257,766)
Charges for services	1,475,660	1,475,060	2,046,094	571,034
Fines and forfeits	111,740	111,740	110,107	(1,633)
Investment income	400,000	400,000	401,073	1,073
Miscellaneous	5,000	305,000	1,008,482	703,482
Transfers in	942,000	1,650,624	1,650,624	-
Other sources	-	2,270,300	2,270,300	-
	<u>92,250,815</u>	<u>95,754,739</u>	<u>92,972,558</u>	<u>(2,782,181)</u>
Expenditures and Other Uses:				
General government	8,785,589	8,905,985	8,725,592	180,393
Public safety	9,308,858	9,370,278	9,057,368	312,910
Education	51,351,612	51,709,190	48,908,453	2,800,737
Public works	3,893,998	4,709,987	4,199,938	510,049
Health and human services	431,991	475,696	463,970	11,726
Culture and recreation	1,313,320	1,325,423	1,279,387	46,036
Debt service	5,136,261	5,136,261	5,098,742	37,519
Intergovernmental	4,088,693	4,088,693	3,772,231	316,462
Employee benefits	7,886,772	7,794,905	7,331,344	463,561
Capital outlay	-	1,109,600	1,109,600	-
Transfers out	2,000	1,077,000	1,077,000	-
Other uses	51,721	51,721	51,721	-
	<u>92,250,815</u>	<u>95,754,739</u>	<u>91,075,345</u>	<u>4,679,394</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,897,213</u>	\$ <u>1,897,213</u>

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-Type Activities Enterprise Funds				Governmenta Activities
	Sewer Fund	Water Fund	Nonmajor Fund	Total	Internal Service Funds
<u>ASSETS</u>					
Current:					
Cash and short-term investments	\$ 3,954,712	\$ 4,283,326	\$ 507,342	\$ 8,745,380	\$ 60,012
User fees, net of allowance for uncollectibles	<u>1,500,879</u>	<u>1,636,180</u>	<u>248,832</u>	<u>3,385,891</u>	<u>-</u>
Total current assets	5,455,591	5,919,506	756,174	12,131,271	60,012
Noncurrent:					
Capital assets not being depreciated	679,558	3,621,871	46,931	4,348,360	-
Capital assets being depreciated, net of accumulated depreciation	<u>11,695,564</u>	<u>41,187,837</u>	<u>-</u>	<u>52,883,401</u>	<u>-</u>
Total noncurrent assets	<u>12,375,122</u>	<u>44,809,708</u>	<u>46,931</u>	<u>57,231,761</u>	<u>-</u>
TOTAL ASSETS	17,830,713	50,729,214	803,105	69,363,032	60,012
<u>LIABILITIES</u>					
Current:					
Warrants payable	177,868	430,513	156,232	764,613	-
Accrued liabilities and other liabilities	57,548	123,538	40,313	221,399	-
Current portion of long-term liabilities:					
Bonds payable	216,715	776,537	-	993,252	-
Other liabilities	<u>2,750</u>	<u>4,412</u>	<u>716</u>	<u>7,878</u>	<u>-</u>
Total current liabilities	454,881	1,335,000	197,261	1,987,142	-
Noncurrent:					
Bonds payable, net of current portion	1,667,115	9,918,214	-	11,585,329	-
Other liabilities, net of current portion	<u>52,240</u>	<u>83,830</u>	<u>13,598</u>	<u>149,668</u>	<u>-</u>
Total noncurrent liabilities	<u>1,719,355</u>	<u>10,002,044</u>	<u>13,598</u>	<u>11,734,997</u>	<u>-</u>
TOTAL LIABILITIES	2,174,236	11,337,044	210,859	13,722,139	-
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	10,502,967	34,478,120	46,931	45,028,018	-
Unrestricted	<u>5,153,510</u>	<u>4,914,050</u>	<u>545,315</u>	<u>10,612,875</u>	<u>60,012</u>
TOTAL NET ASSETS	\$ <u>15,656,477</u>	\$ <u>39,392,170</u>	\$ <u>592,246</u>	\$ <u>55,640,893</u>	\$ <u>60,012</u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds			Total	Governmental Activities
	Sewer Fund	Water Fund	Nonmajor Fund		Internal Service Funds
Operating Revenues:					
Charges for services	\$ 3,913,878	\$ 5,581,409	\$ 2,114,861	\$ 11,610,148	\$ -
Total Operating Revenues	3,913,878	5,581,409	2,114,861	11,610,148	-
Operating Expenses:					
Personnel	511,731	950,342	25,229	1,487,302	69,010
Non-personnel	269,285	1,649,686	1,799,170	3,718,141	-
Depreciation	388,792	1,430,819	-	1,819,611	-
Intergovernmental	2,078,170	-	-	2,078,170	-
Total Operating Expenses	3,247,978	4,030,847	1,824,399	9,103,224	69,010
Operating Income (Loss)	665,900	1,550,562	290,462	2,506,924	(69,010)
Nonoperating Revenues (Expenses):					
Interest income	58,902	49,225	5,647	113,774	177
Intergovernmental	-	-	-	-	-
Interest expense	(84,684)	(396,666)	-	(481,350)	-
Total Nonoperating Revenues (Expenses)	(25,782)	(347,441)	5,647	(367,576)	177
Income Before Transfers	640,118	1,203,121	296,109	2,139,348	(68,833)
Transfers:					
Transfers in	-	-	-	-	59,874
Transfers out	(668,206)	(927,724)	(61,000)	(1,656,930)	-
Change in Net Assets	(28,088)	275,397	235,109	482,418	(8,959)
Net Assets at Beginning of Year	15,684,565	39,116,773	357,137	55,158,475	68,971
Net Assets at End of Year	\$ 15,656,477	\$ 39,392,170	\$ 592,246	\$ 55,640,893	\$ 60,012

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Nonmajor Fund	Total	Internal Service Funds
Cash Flows From Operating Activities:					
Receipts from customers and users	\$ 3,829,566	\$ 5,450,100	\$ 2,103,695	\$ 11,383,361	\$ -
Payments to vendors	(2,305,629)	(1,618,573)	(1,799,939)	(5,724,141)	-
Payments to employees	(497,402)	(950,652)	(20,403)	(1,468,457)	(69,010)
Net Cash Provided By (Used For) Operating Activities	1,026,535	2,880,875	283,353	4,190,763	(69,010)
Cash Flows From Noncapital Financing Activities:					
Transfer in	-	-	-	-	59,874
Transfer out	(668,206)	(927,724)	(61,000)	(1,656,930)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	(668,206)	(927,724)	(61,000)	(1,656,930)	59,874
Cash Flows From Capital and Related Financing Activities:					
Acquisition and construction of capital assets, net disposals	(806,094)	(818,068)	-	(1,624,162)	-
Principal payments on bonds and notes	(216,715)	(803,687)	-	(1,020,402)	-
Interest expense	(86,243)	(401,930)	-	(488,173)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,109,052)	(2,023,685)	-	(3,132,737)	-
Cash Flows From Investing Activities:					
Investment income	58,902	49,225	5,647	113,774	177
Net Change in Cash and Short-Term Investments	(691,821)	(21,309)	228,000	(485,130)	(8,959)
Cash and Short-Term Investments, Beginning of Year	4,646,533	4,304,635	279,342	9,230,510	68,971
Cash and Short-Term Investments, End of Year	\$ 3,954,712	\$ 4,283,326	\$ 507,342	\$ 8,745,380	\$ 60,012
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:					
Operating income (loss)	\$ 665,900	\$ 1,550,562	\$ 290,462	\$ 2,506,924	\$ (69,010)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	388,792	1,430,819	-	1,819,611	-
Changes in assets and liabilities:					
User fees	(124,400)	(192,137)	(51,479)	(368,016)	-
Warrants payable	41,826	31,112	(769)	72,169	-
Accrued liabilities	40,088	60,829	40,313	141,230	-
Other liabilities	14,329	(310)	4,826	18,845	-
Net Cash Provided By (Used For) Operating Activities	\$ 1,026,535	\$ 2,880,875	\$ 283,353	\$ 4,190,763	\$ (69,010)

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2009

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 112,649	\$ 642,818
Other assets	<u>-</u>	<u>2,550,868</u>
Total Assets	112,649	3,193,686
 <u>LIABILITIES AND NET ASSETS</u>		
Warrants payable	-	17,487
Other liabilities	<u>-</u>	<u>3,176,199</u>
Total Liabilities	<u>-</u>	<u>3,193,686</u>
 <u>NET ASSETS</u>		
Total net assets held in trust for other purposes	\$ <u><u>112,649</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 37,501
Investment income	<u>1,460</u>
Total additions	<u>38,961</u>
Deductions:	
Other	<u>9,551</u>
Total deductions	<u>9,551</u>
Net (decrease)	29,410
Transfers:	
Transfers in	-
Transfer out	<u>-</u>
Change in net assets	29,410
Net assets:	
Beginning of year	<u>83,239</u>
End of year	<u><u>\$ 112,649</u></u>

See notes to 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 government 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 2009, it was determined that no entities met the required GASB-39 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 assets and the statement of changes in net assets) 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 are 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 government 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 government 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 *ARRA (American Recovery and Reinvestment Act) Fund* is used to account for the receipt and expenditure of federal “stimulus” funds awarded the community to replace some of the fiscal year 2009 Chapter 70 State aid reductions.
- The *Stabilization fund* accounts for financial resources held in reserve for various purposes, including public works and debt service.

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.

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

The government reports the following major proprietary funds:

- Sewer Fund
- Water Fund

The *unemployment fund* is reported as an internal service fund in the accompanying financial statements.

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 Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 ½" 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 2009 tax levy reflected an excess capacity of \$ 19,916.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government 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.

Property, plant and equipment is 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 government'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 assets.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

At the annual town meeting, the Finance Committee presents 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. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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 reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general 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 with 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.

General Fund	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 97,502,637	\$ 97,300,737
Other financing sources/uses (GAAP basis)	<u>2,366,120</u>	<u>2,788,108</u>
Subtotal (GAAP Basis)	99,868,757	100,088,845
Adjust tax revenue to accrual basis	(297,377)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,683,327)
Add end of year appropriation carryforwards to expenditures	-	1,434,038
To reclass non-budgeted items	(3,230,492)	(3,282,479)
To reverse the effect of non-budgeted State contributions for teachers retirement	(5,638,630)	(5,638,630)
To record raising of prior year's deficits	-	51,721
Record use of free cash	2,270,300	-
To reverse current year change in accrued interest	<u>-</u>	<u>105,177</u>
Budgetary basis	<u>\$ 92,972,558</u>	<u>\$ 91,075,345</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2009:

Chapter 90	\$	(145,336)
Insurance Recovery	\$	(143,980)
EPA Wetlands	\$	(20,000)
Massdev-Nustyle Assessment	\$	(14,922)
State 911 Support	\$	(13,606)
SPED Early Childhood FY09	\$	(7,417)
MAPC Bike Park Program	\$	(6,481)
Governors Highway Safety	\$	(3,984)
SETB Training Grant	\$	(3,875)
Cops in Shops GHSB	\$	(1,781)
Drug Free Schools FY09	\$	(1,285)
Friends of Library - Gift	\$	(512)
Red Sox City of Boston	\$	(231)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

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." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2009, \$ 25,015,128 of the Town's bank balance of \$ 32,644,154 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name. \$ 946,952 of the exposed balance was on deposit with the Massachusetts Municipal Depository Trust (MMDT).

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 Value	Exempt From Disclosure	Rating as of Year End				
			<u>Aaa</u>	<u>Aa2</u>	<u>Baa1</u>	<u>Baa2</u>	<u>N/A</u>
U.S. Treasury bonds	\$ 2,832	\$ -	\$ 2,832	\$ -	\$ -	\$ -	\$ -
Federal Agency securities	1,964	-	1,964	-	-	-	-
Corporate bonds	664	-	300	63	183	118	-
Certificates of deposits	519	-	-	-	-	-	519
Mutual Funds	51	51	-	-	-	-	-
Total investments	<u>\$ 6,030</u>	<u>\$ 51</u>	<u>\$ 5,096</u>	<u>\$ 63</u>	<u>\$ 183</u>	<u>\$ 118</u>	<u>\$ 519</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 will be held in the Town's name and the tax identification number and held by a third-party custodian.

Of the Town's investment of \$ 6,030,440 the government has a custodial credit risk exposure of \$ 5,460,389 because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

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:

Federal Home Loan Bank	\$ 502,362
Federal National Mortgage Association	\$ 640,836
Federal Home Loan Mortgage	\$ 340,418
Federal Farm Credit	\$ 480,221

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>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
U.S. treasury notes	\$ 2,832	\$ -	\$ 2,173	\$ 659
Federal agency securities	1,964	-	1,888	76
Corporate bonds	664	-	664	-
Certificates of deposit	<u>519</u>	<u>-</u>	<u>519</u>	<u>-</u>
Total Investments	\$ <u>5,979</u>	\$ <u>-</u>	\$ <u>5,244</u>	\$ <u>735</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, 2009 consist of the following (in thousands):

Real Estate		
2009	\$ 650	
2008	14	
2007	11	
2006	<u>12</u>	
		687
Personal Property		
2009	9	
2008	8	
2007	6	
2006	4	
2005	4	
2004	10	
Prior	<u>42</u>	
		83
Tax Liens		755
Deferred Taxes		<u>16</u>
Total		<u>\$ 1,541</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	\$ 229	
Excises	238	
Water		\$ 70
Sewer		49
Trash		38

7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as other various fiscal year 2009 grant funds. Future receipt of MSBA payments are as follows:

2010	\$ 1,444,633
2011	825,934
2012	825,934
2013	825,934
2014	825,934
2015-2017	<u>1,651,867</u>
	<u>\$ 6,400,236</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2009 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	\$ 140,808	\$ 855	\$ (390)	\$ 141,273
Machinery, equipment, and furnishings	9,231	997	(66)	10,162
Infrastructure	<u>68,056</u>	<u>672</u>	<u>-</u>	<u>68,728</u>
Total capital assets, being depreciated	218,095	2,524	(456)	220,163
Less accumulated depreciation for:				
Buildings and improvements	(36,266)	(3,755)	73	(39,948)
Machinery, equipment, and furnishings	(5,058)	(794)	66	(5,786)
Infrastructure	<u>(34,266)</u>	<u>(1,618)</u>	<u>-</u>	<u>(35,884)</u>
Total accumulated depreciation	<u>(75,590)</u>	<u>(6,167)</u>	<u>139</u>	<u>(81,618)</u>
Total capital assets, being depreciated, net	142,505	(3,643)	(317)	138,545
Capital assets, not being depreciated:				
Land	15,385	-	(932)	14,453
Construction in progress	<u>1,596</u>	<u>366</u>	<u>(1,596)</u>	<u>366</u>
Total capital assets, not being depreciated	<u>16,981</u>	<u>366</u>	<u>(2,528)</u>	<u>14,819</u>
Governmental activities capital assets, net	<u>\$ 159,486</u>	<u>\$ (3,277)</u>	<u>\$ (2,845)</u>	<u>\$ 153,364</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	1,236	86	-	1,322
Infrastructure	<u>86,340</u>	<u>1,538</u>	<u>-</u>	<u>87,878</u>
Total capital assets, being depreciated	87,857	1,624	-	89,481
Less accumulated depreciation for:				
Buildings and improvements	(67)	(8)	-	(75)
Machinery, equipment, and furnishings	(670)	(97)	-	(767)
Infrastructure	<u>(34,041)</u>	<u>(1,714)</u>	<u>-</u>	<u>(35,755)</u>
Total accumulated depreciation	<u>(34,778)</u>	<u>(1,819)</u>	<u>-</u>	<u>(36,597)</u>
Total capital assets, being depreciated, net	53,079	(195)	-	52,884
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>\$ 57,427</u>	<u>\$ (195)</u>	<u>\$ -</u>	<u>\$ 57,232</u>

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

Governmental Activities:	
General government	\$ 179
Public safety	763
Education	2,734
Public works	2,076
Health and human services	163
Culture and recreation	<u>252</u>
Total depreciation expense - governmental activities	<u>\$ 6,167</u>
Business-Type Activities:	
Sewer	\$ 388
Water	<u>1,431</u>
Total depreciation expense - business-type activities	<u>\$ 1,819</u>

9. Warrants and Accounts Payable

Warrants payable represent 2009 expenditures paid by July 15, 2009, as permitted by law. Accounts payable represent additional 2009 expenditures paid after July 15, 2009.

10. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

11. Anticipation Notes Payable

The Town had no notes outstanding at June 30, 2009.

The following summarizes activity in notes payable during fiscal year 2009:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Ladder truck	\$ 700,000	\$ -	\$ (700,000)	\$ -
Fire station	9,220,000	-	(9,220,000)	-
Senior center	6,175,000	-	(6,175,000)	-
School remodeling	<u>2,000,000</u>	<u>-</u>	<u>(2,000,000)</u>	<u>-</u>
Total	<u>\$ 18,095,000</u>	<u>\$ -</u>	<u>\$ (18,095,000)</u>	<u>\$ -</u>

12. 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 Issue	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2009
<u>Governmental Activities:</u>				
Land acquisition	06/01/00	06/01/10	5.26	\$ 220,000
Building remodeling	05/01/02	05/01/22	4.59	520,000
General obligation	04/01/03	04/01/23	4.13	5,670,000
Building remodeling - school	04/01/04	11/15/23	3.72	2,025,000
School project - refunding	04/01/04	11/15/15	2.00 - 5.00	5,950,737
Outdoor recreational facility	03/15/05	03/15/19	3.25 - 5.50	2,500,000
Outdoor recreational facility	03/15/05	03/15/19	3.25 - 5.50	500,000
School project	03/15/05	03/15/25	3.25 - 5.50	5,840,000
DPW garage	03/15/05	03/15/25	3.25 - 5.50	1,273,263
School project	03/15/06	03/15/26	3.75 - 5.00	4,590,000
School project	03/15/06	03/15/26	3.75 - 5.00	510,000
DPW garage	03/15/06	03/15/26	3.75 - 5.00	2,975,000
DPW garage	03/15/06	03/15/24	3.75 - 5.00	580,000
DPW garage	04/01/07	04/07/27	3.45 - 4.125	2,648,591
General obligation	01/03/09	03/01/28	2.00 - 5.00	17,895,000
Total Governmental Activities:				<u>\$ 53,697,591</u>

	Original Issue	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2009
<u>Business-Type Activities:</u>				
Sewer	06/01/00	06/01/10	5.27	\$ 65,000
Sewer	06/01/00	06/01/10	5.27	15,000
Water	06/01/00	06/01/10	5.27	40,000
Sewer pump station	06/01/00	06/01/08	5.26	10,000
MWPAT Title V	09/28/01	08/01/19	4.50 - 5.75	18,830
Sewer	05/01/02	05/01/22	4.60	325,000
Sewer	05/01/02	05/01/22	4.55	275,000
Water	05/01/02	05/01/22	4.59	845,000
Water mains	05/01/02	05/01/22	4.60	325,000
Sewer	04/01/04	11/15/23	3.72	750,000
Water	04/01/04	11/15/23	3.72	1,125,000
Water treatment facility - refunding	04/01/04	11/15/15	2.00 - 5.00	1,294,263
Water treatment facility DW-02-12	11/15/04	08/01/24	2.50 - 5.25	4,782,342
Water mains	03/15/05	03/15/25	4.26	1,126,737
Sewer	03/15/06	03/15/26	3.75 - 5.00	425,000
Water treatment plant	04/01/07	04/01/27	3.45 - 4.125	270,000
Water improvements	04/01/07	04/01/27	3.45 - 4.125	886,409
Total Business-Type Activities:				<u>\$ 12,578,581</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 4,369,515	\$ 2,094,256	\$ 6,463,771
2011	4,118,620	1,950,693	6,069,313
2012	4,101,585	1,820,294	5,921,879
2013	3,913,236	1,676,401	5,589,637
2014	3,908,984	1,515,680	5,424,664
2015-2019	15,900,469	5,491,624	21,392,093
2020-2024	12,648,487	2,528,856	15,177,343
2025-2028	<u>4,736,695</u>	<u>375,413</u>	<u>5,112,108</u>
Total	<u>\$ 53,697,591</u>	<u>\$ 17,453,217</u>	<u>\$ 71,150,808</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, 2009:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 993,252	\$ 535,208	\$ 1,528,460
2011	865,501	497,241	1,362,742
2012	858,987	465,334	1,324,321
2013	864,028	431,119	1,295,147
2014	873,041	391,893	1,264,934
2015-2019	3,909,919	1,391,647	5,301,566
2020-2024	3,537,319	523,961	4,061,280
2025-2027	<u>676,534</u>	<u>20,372</u>	<u>696,906</u>
Total	<u>\$ 12,578,581</u>	<u>\$ 4,256,775</u>	<u>\$ 16,835,356</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Current Portion	Equals Long-Term Portion <u>6/30/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 40,364	\$ 17,895	\$ (4,561)	\$ 53,698	\$ (4,370)	\$ 49,328
Other:						
OPEB	-	10,441	-	10,441	-	10,441
Accrued employee benefits	<u>1,897</u>	<u>-</u>	<u>(177)</u>	<u>1,720</u>	<u>(86)</u>	<u>1,634</u>
Totals	<u>\$ 42,261</u>	<u>\$ 28,336</u>	<u>\$ (4,738)</u>	<u>\$ 65,859</u>	<u>\$ (4,456)</u>	<u>\$ 61,403</u>

	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Current Portion	Equals Long-Term Portion <u>6/30/09</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 13,599	\$ -	\$ (1,021)	\$ 12,578	\$ (993)	\$ 11,585
Other:						
Accrued employee benefits	<u>139</u>	<u>19</u>	<u>-</u>	<u>158</u>	<u>(8)</u>	<u>150</u>
Totals	<u>\$ 13,738</u>	<u>\$ 19</u>	<u>\$ (1,021)</u>	<u>\$ 12,736</u>	<u>\$ (1,001)</u>	<u>\$ 11,735</u>

D. Advance and Current Refundings

Prior Year

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in 2016. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2009, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$ 8,845,000 and \$ 1,865,000, respectively.

13. Restricted Net Assets

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

Permanent fund restricted net assets are 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. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2009:

Reserved for Encumbrances and Continuing Appropriations - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Debt Service - An account used to segregate premiums received for future debt service expenditures.

Reserved for Permanent Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

15. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits 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.

16. 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, 2009, 2008, and 2007 were \$ 3,250,290, \$ 2,661,890, and \$ 2,603,776, 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 2009, the Commonwealth of Massachusetts contributed \$ 5,638,630 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

17. **Post-Employment Health Care and Life Insurance Benefits**

Other Post-Employment Benefits

During the year, 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 revenues, expenses, and changes in net assets 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 Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care 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 July 1, 2007, the actuarial valuation date, approximately 478 retirees and 1,066 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 2009 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, 2009, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2007.

Annual Required Contribution (ARC)	\$ 12,080,283
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	12,080,283
Contributions made	(1,639,764)
Increase in net OPEB obligation	10,440,519
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 10,440,519

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation 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>
2009	\$ 12,080,283	14%	\$ 10,440,519

The Towns net OPEB obligation as of June 30, 2009 is recorded as a component of the “other long-term liabilities” line item.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2007, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 116,638,532
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 116,638,532</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

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 July 1, 2007 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 3.5% investment rate of return and an initial annual healthcare cost trend rate of 9.5% which decreases to a 5% long-term rate for all healthcare benefits after ten 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 4.5%.

18. Self Insurance

The Town self insures against claims for workers compensation, unemployment and most employee health coverage. Annual estimated requirements for claims are provided in the Town’s annual operating budget. Outstanding year-end claims are considered immaterial.

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 government 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. Beginning Fund Balance Reclassification

The Town’s major governmental funds for fiscal year 2009, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/08 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/08 (as restated)
Central Fire Station	\$ (9,209,944)	\$ 9,209,944	\$ -
Senior center	(5,976,148)	5,976,148	-
Nonmajor funds	<u>5,781,196</u>	<u>(15,186,092)</u>	<u>(9,404,896)</u>
Total	<u>\$ (9,404,896)</u>	<u>\$ -</u>	<u>\$ (9,404,896)</u>

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

**June 30, 2009
(Unaudited)**

Other Post-Employment Benefits

Actuarial Valuation Date <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
07/01/07	\$ -	\$ 116,638,532	\$ 116,638,532	0.0%	N/A	N/A

See Independent Auditors' Report.