

TOWN OF FRANKLIN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2010

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



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 107

Andover, MA 01810-1096

(978) 749-0005 • Fax (978) 749-0006

www.melansonheath.com

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, 2010, 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, 2010, 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

Additional Offices:

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

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, 2011 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, 2011

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, 2010. 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 the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of 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 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, all 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 \$ 170,567 (i.e., net assets), a change of \$ (5,113) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 23,638, a change of \$ 3 in comparison to the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 2,908, a change of \$ (506) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 60,913, a change of \$ (5,363) 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.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 33,644	\$ 36,749	\$ 12,122	\$ 12,131	\$ 45,766	\$ 48,880
Capital assets	<u>149,699</u>	<u>153,364</u>	<u>57,883</u>	<u>57,232</u>	<u>207,582</u>	<u>210,596</u>
Total assets	183,343	190,113	70,005	69,363	253,348	259,476
Long-term liabilities outstanding	66,465	65,858	11,706	12,736	78,171	78,594
Bond anticipation notes	-	-	800	-	800	-
Other liabilities	<u>2,621</u>	<u>4,216</u>	<u>1,189</u>	<u>986</u>	<u>3,810</u>	<u>5,202</u>
Total liabilities	69,086	70,074	13,695	13,722	82,781	83,796
Net assets:						
Invested in capital assets, net	100,904	100,405	45,512	45,028	146,416	145,433
Restricted	11,564	11,009	-	-	11,564	11,009
Unrestricted	<u>1,789</u>	<u>8,625</u>	<u>10,798</u>	<u>10,613</u>	<u>12,587</u>	<u>19,238</u>
Total net assets	\$ <u>114,257</u>	\$ <u>120,039</u>	\$ <u>56,310</u>	\$ <u>55,641</u>	\$ <u>170,567</u>	\$ <u>175,680</u>

CHANGES IN NET ASSETS

	Governmental		Business-Type		Totals	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program revenues:						
Charges for services	\$ 6,385	\$ 6,739	\$ 12,474	\$ 11,610	\$ 18,859	\$ 18,349
Operating grants and contributions	4,575	8,768	-	-	4,575	8,768
Capital grants and contributions	504	588	-	-	504	588
General revenues:						
Property Taxes	51,745	50,118	-	-	51,745	50,118
Excises	3,605	3,704	-	-	3,605	3,704
Penalties, interest and other taxes	259	502	-	-	259	502
Grants and contributions not restricted to specific programs	37,401	35,367	-	-	37,401	35,367
Investment income	499	958	52	114	551	1,072
Miscellaneous	836	2,717	-	-	836	2,717
Total revenues	<u>105,809</u>	<u>109,461</u>	<u>12,526</u>	<u>11,724</u>	<u>118,335</u>	<u>121,185</u>
Expenses:						
General government	10,165	11,318	-	-	10,165	11,318
Public safety	9,631	9,705	-	-	9,631	9,705
Education	67,057	67,254	-	-	67,057	67,254
Public works	6,071	6,713	-	-	6,071	6,713
Human services	767	742	-	-	767	742
Culture and recreation	984	1,546	-	-	984	1,546
Employee benefits	12,484	18,018	-	-	12,484	18,018
Interest on long-term debt	2,087	2,233	-	-	2,087	2,233
Intergovernmental	4,012	3,772	-	-	4,012	3,772
Sewer	-	-	3,753	3,333	3,753	3,333
Water	-	-	4,540	4,428	4,540	4,428
Sanitation	-	-	1,897	1,824	1,897	1,824
Total expenses	<u>113,258</u>	<u>121,301</u>	<u>10,190</u>	<u>9,585</u>	<u>123,448</u>	<u>130,886</u>
Change in net assets before transfers	(7,449)	(11,840)	2,336	2,139	(5,113)	(9,701)
Transfers, net	<u>1,667</u>	<u>1,657</u>	<u>(1,667)</u>	<u>(1,657)</u>	<u>-</u>	<u>-</u>
Change in net assets	(5,782)	(10,183)	669	482	(5,113)	(9,701)
Net assets - beginning 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>
Net assets - end of year	<u>\$ 114,257</u>	<u>\$ 120,039</u>	<u>\$ 56,310</u>	<u>\$ 55,641</u>	<u>\$ 170,567</u>	<u>\$ 175,680</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 \$ 170,567, a change of \$ (5,113) from the prior year.

The largest portion of net assets \$ 146,416 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 \$ 11,564 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 12,587 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 \$ (5,782). Key elements of this change are as follows:

General fund revenues and transfers in, in excess of expenditures and transfer out	\$ 384
Capital assets additions from current year revenues, net of disposals	2,508
MSBA grants recognized in prior years	(1,445)
Change in OPEB	(4,958)
Depreciation expense in excess of principal debt service expense	(1,803)
Other	<u>(468)</u>
Total	<u>\$ (5,782)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 669. Key elements of this change are as follows:

Sewer operations	\$ (207)
Water operations	668
Solid waste fund	<u>208</u>
Total	<u>\$ 669</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 \$ 23,638, a change of \$ 3 in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and transfers in in excess of expenditures and transfers out	\$ 384
Trust fund revenues in excess of expenditures	267
Special revenue fund expenditures and transfers out in excess of revenues and transfers in	(94)
Capital projects fund revenues and other financing services in excess of expenditures and transfers out	128
Stabilization fund expenditures and transfers out in excess of revenues and transfers in	<u>(682)</u>
Total	\$ <u><u>3</u></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 \$ 2,908, while total fund balance was \$ 6,665. 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 2.9 percent of total general fund expenditures, while total fund balance represents 6.7 percent of that same amount.

The fund balance of the general fund changed by \$ 384 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	\$ (2,513)
Revenues more than budget	658
Expenditures less than budget	889
Increase in year-end encumbrances	1,473
Other	<u>(123)</u>
Total	\$ <u><u>384</u></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 \$ 10,798, a change of \$ 185 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 \$ 2,897. Major reasons for these amendments include:

- \$ (116,000) reduction of original appropriation.
- \$ 250,000 appropriated for the purchase of land, funded by taxes.
- \$ 50,000 appropriated for museum renovations, funded by taxes.
- \$ 30,000 appropriated for veterans benefits, funded by free cash.
- \$ 6,400 appropriated for increase in elections expenditures, funded by free cash.
- \$ 175,000 appropriated for unemployment benefits, funded by free cash.
- \$ 2,019,000 appropriated for the capital plan, funded by free cash, revolving fund and reappropriation of prior year encumbrances.
- \$ 100,000 appropriated for the purchase of a fire truck, funded by free cash.
- \$ 10,000 appropriated for the installation of solar panels at the Parmenter School, funded by free cash.
- \$ 19,200 appropriated for the triennial property revaluation, funded by overlay surplus.
- \$ 12,000 appropriated for personal property revaluation, funded by overlay surplus.
- \$ 231,252 appropriated for DPW snow and ice, funded by free cash.
- \$ 10,000 appropriated for school expenditures, funded by free cash.
- \$ 100,000 appropriated for unemployment costs, funded by free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 207,582 (net of accumulated depreciation), a change of \$ (3,014) 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 costs for the Library, the Historical Museum and Franklin Center improvements, various street improvements, the purchase of trash tractors, the purchase of land, and the acquisition of vehicles and equipment for police, fire, public works, and school departments.

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

Change in credit rating. During the fiscal year, the Standard & Poor's credit rating of AA did not change.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 60,913, 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 the 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 account that resulted in having 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. By the end of FY11, all the projects will have been completed and any remaining funds in the Public Works stabilization account will be returned to the general stabilization

account or used for a capital item. The debt stabilization account served its intended purpose and no funds remain in the account.

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 their fiscal policy (\$ 4,500,000 or 5% of general operating budget), no other funds have been used for any purpose.

The table below sets forth the three Stabilization Fund balances at year end for the last seven fiscal years.

<u>As of June 30</u>	<u>Stabilization Fund Balance</u>	<u>Debt Stabilization</u>	<u>Public Works Stabilization</u>
2010	\$ 4,647,074	\$ 179,754	\$ 129,560
2009	4,573,205	402,867	727,605
2008	4,136,999	567,579	792,076
2007	5,223,861	551,700	924,285
2006	7,008,414	535,458	1,171,988
2005	6,957,001	865,052	1,124,062
2004	9,454,329	-	-

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, 2010

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 17,613,778	\$ 8,505,452	\$ 26,119,230
Investments	7,878,468	-	7,878,468
Receivables, net of allowance for uncollectibles:			
Property taxes	546,365	-	546,365
Excises	262,661	-	262,661
User fees	-	3,617,059	3,617,059
Intergovernmental	1,101,175	-	1,101,175
Departmental and other	1,131,214	-	1,131,214
Other assets	43,600	-	43,600
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	806,230	-	806,230
Intergovernmental	4,129,669	-	4,129,669
Deferred assets	131,200	-	131,200
Capital assets not being depreciated	15,581,718	4,348,360	19,930,078
Capital assets being depreciated, net of accumulated depreciation	<u>134,116,916</u>	<u>53,534,246</u>	<u>187,651,162</u>
TOTAL ASSETS	183,342,994	70,005,117	253,348,111
LIABILITIES			
Current:			
Warrants payable	932,538	1,115,963	2,048,501
Accrued and other liabilities	1,688,111	73,493	1,761,604
Notes payable	-	800,000	800,000
Current portion of long-term liabilities:			
Bonds payable	4,118,620	865,501	4,984,121
Other liabilities	86,907	6,024	92,931
Noncurrent:			
Bonds payable, net of current portion	45,209,456	10,719,828	55,929,284
Net OPEB obligation	15,399,197	-	15,399,197
Other liabilities, net of current portion	<u>1,651,232</u>	<u>114,473</u>	<u>1,765,705</u>
TOTAL LIABILITIES	69,086,061	13,695,282	82,781,343
NET ASSETS			
Invested in capital assets, net of related debt	100,904,088	45,512,181	146,416,269
Restricted for:			
Grants and other statutory restrictions	6,640,160	-	6,640,160
Permanent funds:			
Nonexpendable	503,930	-	503,930
Expendable	4,419,622	-	4,419,622
Unrestricted	<u>1,789,133</u>	<u>10,797,654</u>	<u>12,586,787</u>
TOTAL NET ASSETS	\$ <u>114,256,933</u>	\$ <u>56,309,835</u>	\$ <u>170,566,768</u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 10,164,873	\$ 576,398	\$ 811,293	\$ -	\$ (8,777,182)	\$ -	\$ (8,777,182)
Public safety	9,631,150	1,649,730	45,856	-	(7,935,564)	-	(7,935,564)
Education	67,057,125	3,471,874	3,485,991	-	(60,099,260)	-	(60,099,260)
Public works	6,071,162	82,364	73,041	503,607	(5,412,150)	-	(5,412,150)
Health and human services	767,104	99,870	97,832	-	(569,402)	-	(569,402)
Culture and recreation	983,961	504,283	61,125	-	(418,553)	-	(418,553)
Employee benefits	12,484,166	-	-	-	(12,484,166)	-	(12,484,166)
Interest	2,086,721	-	-	-	(2,086,721)	-	(2,086,721)
Intergovernmental	4,011,245	-	-	-	(4,011,245)	-	(4,011,245)
Total Governmental Activities	<u>113,257,507</u>	<u>6,384,519</u>	<u>4,575,138</u>	<u>503,607</u>	<u>(101,794,243)</u>	<u>-</u>	<u>(101,794,243)</u>
Business-Type Activities:							
Sewer services	3,752,899	4,196,172	-	-	-	443,273	443,273
Water services	4,539,843	6,116,756	-	-	-	1,576,913	1,576,913
Sanitation services	1,897,120	2,160,988	-	-	-	263,868	263,868
Total Business-Type Activities	<u>10,189,862</u>	<u>12,473,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,284,054</u>	<u>2,284,054</u>
Total	<u>\$ 123,447,369</u>	<u>\$ 18,858,435</u>	<u>\$ 4,575,138</u>	<u>\$ 503,607</u>	<u>(101,794,243)</u>	<u>2,284,054</u>	<u>(99,510,189)</u>
General Revenues and transfers:							
Property taxes					51,744,663	-	51,744,663
Excises					3,604,983	-	3,604,983
Penalties, interest and other taxes					258,784	-	258,784
Grants and contributions not restricted to specific programs					37,401,406	-	37,401,406
Investment income					499,139	51,802	550,941
Miscellaneous					836,375	-	836,375
Transfers, net					1,666,914	(1,666,914)	-
Total general revenues					<u>96,012,264</u>	<u>(1,615,112)</u>	<u>94,397,152</u>
Change in Net Assets					(5,781,979)	668,942	(5,113,037)
Net Assets:							
Beginning of year					<u>120,038,912</u>	<u>55,640,893</u>	<u>175,679,805</u>
End of year					<u>\$ 114,256,933</u>	<u>\$ 56,309,835</u>	<u>\$ 170,566,768</u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	<u>General</u>	<u>Stabilization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 8,568,694	\$ 1,436,094	\$ 7,608,990	\$ 17,613,778
Investments	-	3,792,534	4,085,934	7,878,468
Receivables:				
Property taxes	1,590,181	-	-	1,590,181
Excises	517,198	-	-	517,198
Intergovernmental	-	-	275,241	275,241
Departmental and other	<u>1,131,214</u>	<u>-</u>	<u>-</u>	<u>1,131,214</u>
TOTAL ASSETS	<u>\$ 11,807,287</u>	<u>\$ 5,228,628</u>	<u>\$ 11,970,165</u>	<u>\$ 29,006,080</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 706,752	\$ -	\$ 225,786	\$ 932,538
Accrued liabilities	1,037,492	-	-	1,037,492
Other liabilities	159,432	-	-	159,432
Deferred revenues	<u>3,238,594</u>	<u>-</u>	<u>-</u>	<u>3,238,594</u>
TOTAL LIABILITIES	5,142,270	-	225,786	5,368,056
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	3,072,933	-	-	3,072,933
Debt Service	684,259	-	-	684,259
Perpetual permanent funds	-	-	503,930	503,930
Unreserved:				
Undesignated, reported in:				
General fund	2,907,825	-	-	2,907,825
Special revenue funds	-	5,228,628	5,954,263	11,182,891
Capital project funds	-	-	866,564	866,564
Permanent funds	<u>-</u>	<u>-</u>	<u>4,419,622</u>	<u>4,419,622</u>
TOTAL FUND BALANCES	<u>6,665,017</u>	<u>5,228,628</u>	<u>11,744,379</u>	<u>23,638,024</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,807,287</u>	<u>\$ 5,228,628</u>	<u>\$ 11,970,165</u>	<u>\$ 29,006,080</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, 2010

Total governmental fund balances	\$	23,638,024
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	149,698,634	
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not reported at the fund level 	2,921,271	
<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. 	4,955,603	
<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. 	(491,187)	
<ul style="list-style-type: none"> • Long-term liabilities, including bonds payable, compensated absences, and net OPEB obligation, are not due and payable in the current period and, therefore, are not reported in the governmental funds. 	<u>(66,465,412)</u>	
Net assets of governmental activities	\$	<u><u>114,256,933</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, 2010

	<u>General</u>	<u>Stabilization</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 51,703,724	\$ -	\$ -	\$ 51,703,724
Excise taxes	3,583,747	-	140	3,583,887
Penalties, interest and other taxes	264,316	-	-	264,316
Charges for services	1,882,758	-	3,742,915	5,625,673
Intergovernmental	38,846,040	-	3,197,162	42,043,202
Licenses and permits	778,076	-	-	778,076
Contributions	-	-	1,881,583	1,881,583
Fines and forfeitures	103,137	-	-	103,137
Investment income	220,242	118,103	160,794	499,139
Miscellaneous	608,435	-	227,940	836,375
Total Revenues	<u>97,990,475</u>	<u>118,103</u>	<u>9,210,534</u>	<u>107,319,112</u>
Expenditures:				
Current:				
General government	8,801,049	-	1,489,595	10,290,644
Public safety	8,734,987	-	152,923	8,887,910
Education	57,672,991	-	6,824,120	64,497,111
Public works	3,643,893	-	869,105	4,512,998
Health and human services	453,582	-	143,835	597,417
Culture and recreation	1,299,543	-	19,870	1,319,413
Employee benefits	7,486,526	-	38,961	7,525,487
Debt service	6,454,517	-	-	6,454,517
Intergovernmental	4,011,245	-	-	4,011,245
Capital outlay	886,637	-	-	886,637
Total Expenditures	<u>99,444,970</u>	<u>-</u>	<u>9,538,409</u>	<u>108,983,379</u>
Excess (deficiency) of revenues over expenditures	(1,454,495)	118,103	(327,875)	(1,664,267)
Other Financing Sources (Uses):				
Transfers in	2,089,434	-	851,050	2,940,484
Transfers out	(251,050)	(800,000)	(222,520)	(1,273,570)
Total Other Financing Sources (Uses)	<u>1,838,384</u>	<u>(800,000)</u>	<u>628,530</u>	<u>1,666,914</u>
Change in fund balance	383,889	(681,897)	300,655	2,647
Fund Balance, at Beginning of Year, restated	<u>6,281,128</u>	<u>5,910,525</u>	<u>11,443,724</u>	<u>23,635,377</u>
Fund Balance, at End of Year	<u>\$ 6,665,017</u>	<u>\$ 5,228,628</u>	<u>\$ 11,744,379</u>	<u>\$ 23,638,024</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, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 2,647						
<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 border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Capital outlay purchases, net of disposals</td> <td style="text-align: right;">2,507,550</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(6,172,875)</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. (65,865) • 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. (1,444,633) • 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 border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">4,369,515</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. 41,881 • Some expenses reported in the Statement of Activities, such as net OPEB obligation and compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <u>(5,020,199)</u> 		Capital outlay purchases, net of disposals	2,507,550	Depreciation	(6,172,875)	Repayments of debt	4,369,515
Capital outlay purchases, net of disposals	2,507,550						
Depreciation	(6,172,875)						
Repayments of debt	4,369,515						
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(5,781,979)</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, 2010

	<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	\$ 51,668,161	\$ 51,827,161	\$ 51,827,161	\$ -
Motor vehicle excise	3,506,200	3,506,200	3,583,745	77,545
Penalties, interest and other taxes	228,900	228,900	259,255	30,355
Intergovernmental	32,441,416	32,441,416	32,257,450	(183,966)
Licenses and permits	580,000	580,000	778,076	198,076
Charges for services	1,434,205	1,434,205	1,857,409	423,204
Fines and forfeits	89,000	89,000	94,236	5,236
Investment income	250,000	250,000	220,242	(29,758)
Miscellaneous	911,000	911,000	1,046,176	135,176
Transfers in	1,150,000	1,375,000	1,377,520	2,520
Total Revenues and Other Sources	92,258,882	92,642,882	93,301,270	658,388
Expenditures and Other Uses:				
General government	8,813,061	9,103,294	8,947,215	156,079
Public safety	8,995,417	9,095,417	8,926,022	169,395
Education	51,439,799	51,439,799	51,417,896	21,903
Public works	3,788,403	3,969,656	3,682,695	286,961
Health and human services	448,511	478,511	453,582	24,929
Culture and recreation	1,251,871	1,257,385	1,208,702	48,683
Debt service	5,744,576	5,744,576	5,742,603	1,973
Intergovernmental	4,171,894	4,171,894	4,011,245	160,649
Employee benefits	7,605,350	7,724,202	7,486,526	237,676
Capital outlay	-	2,019,000	2,139,229	(120,229)
Transfers out	-	152,000	251,050	(99,050)
Total Expenditures and Other Uses	92,258,882	95,155,734	94,266,765	888,969
Excess (deficiency) of revenues over expenditures	-	(2,512,852)	(965,495)	1,547,357
Other Financing Source:				
Use of free cash	-	2,512,852	-	(2,512,852)
Excess of revenues over expenditures	\$ -	\$ -	\$ (965,495)	\$ (965,495)

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Solid Waste Fund</u>	
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 3,230,290	\$ 3,728,924	\$ 1,546,238	\$ 8,505,452
User fees, net of allowance for uncollectibles	<u>1,577,181</u>	<u>1,824,302</u>	<u>215,576</u>	<u>3,617,059</u>
Total current assets	4,807,471	5,553,226	1,761,814	12,122,511
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>11,730,145</u>	<u>41,045,925</u>	<u>758,176</u>	<u>53,534,246</u>
Total noncurrent assets	<u>12,409,703</u>	<u>44,667,796</u>	<u>805,107</u>	<u>57,882,606</u>
TOTAL ASSETS	17,217,174	50,221,022	2,566,921	70,005,117
<u>LIABILITIES</u>				
Current:				
Warrants payable	44,165	108,755	963,043	1,115,963
Accrued liabilities and other liabilities	15,901	57,592	-	73,493
Notes payable	-	-	800,000	800,000
Current portion of long-term liabilities:				
Bonds payable	126,727	738,774	-	865,501
Other liabilities	<u>2,042</u>	<u>3,793</u>	<u>189</u>	<u>6,024</u>
Total current liabilities	188,835	908,914	1,763,232	2,860,981
Noncurrent:				
Bonds payable, net of current portion	1,540,388	9,179,440	-	10,719,828
Other liabilities, net of current portion	<u>38,807</u>	<u>72,072</u>	<u>3,594</u>	<u>114,473</u>
Total noncurrent liabilities	<u>1,579,195</u>	<u>9,251,512</u>	<u>3,594</u>	<u>10,834,301</u>
TOTAL LIABILITIES	1,768,030	10,160,426	1,766,826	13,695,282
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	10,754,263	34,750,891	7,027	45,512,181
Unrestricted	<u>4,694,881</u>	<u>5,309,705</u>	<u>793,068</u>	<u>10,797,654</u>
TOTAL NET ASSETS	\$ <u>15,449,144</u>	\$ <u>40,060,596</u>	\$ <u>800,095</u>	\$ <u>56,309,835</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, 2010

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Solid Waste Fund</u>	
Operating Revenues:				
Charges for services	\$ <u>4,196,172</u>	\$ <u>6,116,756</u>	\$ <u>2,160,988</u>	\$ <u>12,473,916</u>
Total Operating Revenues	4,196,172	6,116,756	2,160,988	12,473,916
Operating Expenses:				
Personnel	524,994	906,817	49,619	1,481,430
Non-personnel	322,880	1,852,174	1,807,597	3,982,651
Depreciation	401,211	1,411,098	39,904	1,852,213
Intergovernmental	<u>2,428,150</u>	<u>-</u>	<u>-</u>	<u>2,428,150</u>
Total Operating Expenses	<u>3,677,235</u>	<u>4,170,089</u>	<u>1,897,120</u>	<u>9,744,444</u>
Operating Income (Loss)	518,937	1,946,667	263,868	2,729,472
Nonoperating Revenues (Expenses):				
Interest income	19,600	26,221	5,981	51,802
Interest expense	<u>(75,664)</u>	<u>(369,754)</u>	<u>-</u>	<u>(445,418)</u>
Total Nonoperating Revenues (Expenses)	<u>(56,064)</u>	<u>(343,533)</u>	<u>5,981</u>	<u>(393,616)</u>
Income Before Transfers	462,873	1,603,134	269,849	2,335,856
Transfers:				
Transfers out	<u>(670,206)</u>	<u>(934,708)</u>	<u>(62,000)</u>	<u>(1,666,914)</u>
Change in Net Assets	(207,333)	668,426	207,849	668,942
Net Assets at Beginning of Year	<u>15,656,477</u>	<u>39,392,170</u>	<u>592,246</u>	<u>55,640,893</u>
Net Assets at End of Year	\$ <u><u>15,449,144</u></u>	\$ <u><u>40,060,596</u></u>	\$ <u><u>800,095</u></u>	\$ <u><u>56,309,835</u></u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Solid Waste Fund	Total
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 4,079,779	\$ 5,867,805	\$ 2,153,932	\$ 12,101,516
Payments to vendors	(2,884,731)	(2,173,931)	(1,000,787)	(6,059,449)
Payments to employees	(539,135)	(919,194)	(60,150)	(1,518,479)
Net Cash Provided By (Used For) Operating Activities	655,913	2,774,680	1,092,995	4,523,588
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfer out	(670,206)	(934,708)	(62,000)	(1,666,914)
Net Cash Provided by (Used For) Noncapital Financing Activities	(670,206)	(934,708)	(62,000)	(1,666,914)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets, net disposals	(435,792)	(1,269,186)	(798,080)	(2,503,058)
Principal payments on bonds and notes	(216,715)	(776,537)	-	(993,252)
Proceeds bonds and notes	-	-	800,000	800,000
Interest expense	(77,222)	(374,872)	-	(452,094)
Net Cash (Used For) Capital and Related Financing Activities	(729,729)	(2,420,595)	1,920	(3,148,404)
<u>Cash Flows From Investing Activities:</u>				
Investment income	19,600	26,221	5,981	51,802
Net Change in Cash and Short-Term Investments	(724,422)	(554,402)	1,038,896	(239,928)
Cash and Short-Term Investments, Beginning of Year	3,954,712	4,283,326	507,342	8,745,380
Cash and Short-Term Investments, End of Year	\$ 3,230,290	\$ 3,728,924	\$ 1,546,238	\$ 8,505,452
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ 518,937	\$ 1,946,667	\$ 263,868	\$ 2,729,472
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	401,211	1,411,098	39,904	1,852,213
Changes in assets and liabilities:				
User fees	(76,302)	(188,121)	33,256	(231,167)
Warrants payable	(133,702)	(321,758)	806,809	351,349
Accrued liabilities	(40,088)	(60,829)	(40,312)	(141,229)
Other liabilities	(14,143)	(12,377)	(10,530)	(37,050)
Net Cash Provided By (Used For) Operating Activities	\$ 655,913	\$ 2,774,680	\$ 1,092,995	\$ 4,523,588

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2010

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 110,971	\$ 605,455
Other assets	<u>-</u>	<u>1,925,462</u>
Total Assets	110,971	2,530,917
 <u>LIABILITIES AND NET ASSETS</u>		
Warrants payable	-	26,774
Other liabilities	<u>-</u>	<u>2,504,143</u>
Total Liabilities	<u>-</u>	<u>2,530,917</u>
 <u>NET ASSETS</u>		
Total net assets held in trust for other purposes	\$ <u><u>110,971</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, 2010

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 9,724
Investment income	<u>1,648</u>
Total additions	11,372
 Deductions:	
Other	<u>13,050</u>
Total deductions	<u>13,050</u>
Change in net assets	(1,678)
 Net assets:	
Beginning of year	<u>112,649</u>
End of year	<u><u>\$ 110,971</u></u>

See notes to financial statements.

TOWN OF FRANKLIN, MASSACHUSETTS

Notes to the 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 2010, 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 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 govern-

mental 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 *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
- Solid Waste Fund

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 2010 tax levy reflected an excess capacity of \$ 14,557.

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 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 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

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.

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.

General Fund	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 97,990,475	\$ 99,444,970
Other financing sources/uses (GAAP basis)	<u>2,089,434</u>	<u>251,050</u>
Subtotal (GAAP Basis)	100,079,909	99,696,020
Adjust tax revenue to accrual basis	124,181	-
Reverse beginning of year appro- priation carryforwards from expenditures	-	(1,272,850)
Add end of year appropriation carryforwards to expenditures	-	2,745,670
To reclass non-budgeted items	(712,660)	(711,915)
To reverse the effect of non- budgeted State contributions for teachers retirement	<u>(6,190,160)</u>	<u>(6,190,160)</u>
Budgetary basis	<u>\$ 93,301,270</u>	<u>\$ 94,266,765</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2010:

Chapter 90	\$ (127,999)
High School Renovations	\$ (3,000)
DEP Stormwater Retrofit	\$ (6,320)
PWED - Downtown Improvement	\$ (38,000)
HHP Mass Highway - Franklin Center Design	\$ (179,221)
Massdev - NuStyle Assessment	\$ (1,790)
MAPC Bike Park Program	\$ (341)
Governors Highway Safety	\$ (1,777)
Cops in Shops GHSB	\$ (53)
SETB Training Grant	\$ (4,202)
State 911 Support	\$ (55,869)
Pedestrian Bike Moped	\$ (2,004)
FY10 Title II Part A Teacher	\$ (3,023)
FY10 SPED Fed Entitlement	\$ (157,473)

(continued)

(continued)

FY10 SPED Early Childhood	\$	(9,203)
FY10 Title I	\$	(17,094)
FY10 Drug Free Schools	\$	(2,573)
FY10 Academic Support	\$	(3,246)
FY10 Kinder Enhancement	\$	(47,870)
SPED 50/50	\$	(46)

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."

As of June 30, 2010, \$ 19,985,120 of the Town's bank balance of \$ 28,682,623 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name. The amount exposed to custodial credit risk at June 30, 2010 results primarily from a \$ 6,800,000 receipt from the Commonwealth of June 30th which was transferred to institutions with FDIC and DIF coverage on July 1, 2010. \$ 1,085,534 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>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>			
			<u>Aaa</u>	<u>Aa2</u>	<u>B1</u>	<u>N/A</u>
U.S. Treasury bonds	\$ 2,898	\$ -	\$ 2,898	\$ -	\$ -	\$ -
Federal Agency securities	3,316	-	3,316	-	-	-
Corporate bonds	527	-	285	171	71	-
Certificates of deposits	814	-	-	-	-	814
Mutual Funds	323	323	-	-	-	323
Total investments	<u>\$ 7,878</u>	<u>\$ 323</u>	<u>\$ 6,499</u>	<u>\$ 171</u>	<u>\$ 71</u>	<u>\$ 1,137</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 \$ 7,877,448 the government has a custodial credit risk exposure of \$ 1,002,053 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 National Mortgage Association	\$ 1,940,127
Federal Home Loan Mortgage	\$ 720,863

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	\$ 2,898	\$ -	\$ 1,897	\$ 1,001
Federal agency securities	3,316	-	1,877	1,439
Corporate bonds	527	-	527	-
Certificates of deposit	<u>814</u>	<u>-</u>	<u>814</u>	<u>-</u>
Total Investments	<u>\$ 7,555</u>	<u>\$ -</u>	<u>\$ 5,115</u>	<u>\$ 2,440</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, 2010 consist of the following (in thousands):

Real Estate		
2010	\$ 563	
2008	3	
2007	2	
Prior	<u>13</u>	
		581
Personal Property		
2010	22	
2009	9	
2008	8	
2007	6	
2006	4	
2005	4	
Prior	<u>52</u>	
		105
Tax Liens		896
Deferred Taxes		<u>8</u>
Total		<u>\$ 1,590</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	\$ 238	
Excises	255	
Water		\$ 70
Sewer		49
Trash		39

7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as other various fiscal year 2010 grant funds. Future receipt of MSBA payments are as follows:

2011	\$ 825,934
2012	825,934
2013	825,934
2014	825,934
2015	825,934
2016	<u>825,933</u>
	<u>\$ 4,955,603</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2010 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	\$ 141,273	\$ 368	\$ -	\$ 141,641
Machinery, equipment, and furnishings	10,162	327	(771)	9,718
Infrastructure	<u>68,728</u>	<u>1,160</u>	<u>-</u>	<u>69,888</u>
Total capital assets, being depreciated	220,163	1,855	(771)	221,247
Less accumulated depreciation for:				
Buildings and improvements	(39,948)	(3,781)	-	(43,729)
Machinery, equipment, and furnishings	(5,786)	(751)	661	(5,876)
Infrastructure	<u>(35,884)</u>	<u>(1,641)</u>	<u>-</u>	<u>(37,525)</u>
Total accumulated depreciation	<u>(81,618)</u>	<u>(6,173)</u>	<u>661</u>	<u>(87,130)</u>
Total capital assets, being depreciated, net	138,545	(4,318)	(110)	134,117
Capital assets, not being depreciated:				
Land	14,453	250	-	14,703
Construction in progress	<u>366</u>	<u>821</u>	<u>(308)</u>	<u>879</u>
Total capital assets, not being depreciated	<u>14,819</u>	<u>1,071</u>	<u>(308)</u>	<u>15,582</u>
Governmental activities capital assets, net	<u>\$ 153,364</u>	<u>\$ (3,247)</u>	<u>\$ (418)</u>	<u>\$ 149,699</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	1,322	29	-	1,351
Infrastructure	<u>87,878</u>	<u>2,474</u>	<u>-</u>	<u>90,352</u>
Total capital assets, being depreciated	89,481	2,503	-	91,984
Less accumulated depreciation for:				
Buildings and improvements	(75)	(8)	-	(83)
Machinery, equipment, and furnishings	(767)	(95)	-	(862)
Infrastructure	<u>(35,755)</u>	<u>(1,749)</u>	<u>-</u>	<u>(37,504)</u>
Total accumulated depreciation	<u>(36,597)</u>	<u>(1,852)</u>	<u>-</u>	<u>(38,449)</u>
Total capital assets, being depreciated, net	52,884	651	-	53,535
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>\$ 57,232</u>	<u>\$ 651</u>	<u>\$ -</u>	<u>\$ 57,883</u>

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

Governmental Activities:

General government	\$ 175
Public safety	719
Education	2,761
Public works	2,097
Health and human services	160
Culture and recreation	<u>261</u>

Total depreciation expense - governmental activities \$ 6,173

Business-Type Activities:

Sewer	\$ 401
Water	1,411
Solid waste	<u>40</u>

Total depreciation expense - business-type activities \$ 1,852

9. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010, as permitted by law. Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

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, 2010.

The following summarizes activity in notes payable during fiscal year 2010:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Trash Trotters	\$ -	\$ 800,000	\$ -	\$ 800,000
Total	<u>\$ -</u>	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ 800,000</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:

<u>Governmental Activities:</u>	Original Issue	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/10
Building remodeling	05/01/02	05/01/22	4.59	480,000
General obligation	04/01/03	04/01/23	4.13	5,265,000
Building remodeling - school	04/01/04	11/15/23	3.72	1,890,000
School project - refunding	04/01/04	11/15/15	2.00 - 5.00	4,954,382
Outdoor recreational facility	03/15/05	03/15/19	3.25 - 5.50	2,250,000
Outdoor recreational facility	03/15/05	03/15/19	3.25 - 5.50	450,000
School project	03/15/05	03/15/25	3.25 - 5.50	5,475,000

(continued)

(continued)

	Original	Serial	Interest	Amount
<u>Governmental Activities:</u>	<u>Issue</u>	<u>Maturities Through</u>	<u>Rate(s)%</u>	<u>Outstanding as of 6/30/10</u>
DPW garage	03/15/05	03/15/25	3.25 - 5.50	1,193,684
School project	03/15/06	03/15/26	3.75 - 5.00	4,320,000
School project	03/15/06	03/15/26	3.75 - 5.00	480,000
DPW garage	03/15/06	03/15/26	3.75 - 5.00	2,800,000
DPW garage	03/15/06	03/15/24	3.75 - 5.00	540,000
DPW garage	04/01/07	04/07/27	3.45 - 4.125	2,480,010
General obligation	01/03/09	03/01/28	2.00 - 5.00	16,750,000
Total Governmental Activities:				<u>\$ 49,328,076</u>

	Original	Serial	Interest	Amount
<u>Business-Type Activities:</u>	<u>Issue</u>	<u>Maturities Through</u>	<u>Rate(s)%</u>	<u>Outstanding as of 6/30/10</u>
MWPAT Title V	09/28/01	08/01/19	4.50 - 5.75	17,115
Sewer	05/01/02	05/01/22	4.60	300,000
Sewer	05/01/02	05/01/22	4.55	250,000
Water	05/01/02	05/01/22	4.59	780,000
Water mains	05/01/02	05/01/22	4.60	300,000
Sewer	04/01/04	11/15/23	3.72	700,000
Water	04/01/04	11/15/23	3.72	1,050,000
Water treatment facility - refunding	04/01/04	11/15/15	2.00 - 5.00	1,095,618
Water treatment facility DW-02-12	11/15/04	08/01/24	2.50 - 5.25	4,551,290
Water mains	03/15/05	03/15/25	4.26	1,056,316
Sewer	03/15/06	03/15/26	3.75 - 5.00	400,000
Water treatment plant	04/01/07	04/01/27	3.45 - 4.125	255,000
Water improvements	04/01/07	04/01/27	3.45 - 4.125	829,990
Total Business-Type Activities:				<u>\$ 11,585,329</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,515,681	5,424,665
2015	3,800,505	1,365,335	5,165,840
2016-2020	14,730,661	4,844,937	19,575,598
2021-2025	12,024,740	2,012,089	14,036,829
2026-2028	<u>2,729,745</u>	<u>173,532</u>	<u>2,903,277</u>
Total	\$ <u>49,328,076</u>	\$ <u>15,358,962</u>	\$ <u>64,687,038</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, 2010:

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	884,461	353,740	1,238,201
2016-2020	3,762,411	1,211,527	4,973,938
2021-2025	3,336,645	362,606	3,699,251
2026-2027	<u>140,255</u>	<u>8,106</u>	<u>148,361</u>
Total	\$ <u>11,585,329</u>	\$ <u>3,721,566</u>	\$ <u>15,306,895</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/10</u>	Current Portion	Equals Long-Term Portion <u>6/30/10</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 53,698	\$ -	\$ (4,370)	\$ 49,328	\$ (4,119)	\$ 45,209
Other:						
Net OPEB obligation	10,441	6,662	(1,704)	15,399	-	15,399
Accrued employee benefits	<u>1,720</u>	<u>135</u>	<u>(117)</u>	<u>1,738</u>	<u>(87)</u>	<u>1,651</u>
Totals	\$ <u>65,859</u>	\$ <u>6,797</u>	\$ <u>(6,191)</u>	\$ <u>66,465</u>	\$ <u>(4,206)</u>	\$ <u>62,259</u>

	Total Balance <u>7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/10</u>	Current Portion	Equals Long-Term Portion <u>6/30/10</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 12,578	\$ -	\$ (993)	\$ 11,585	\$ (866)	\$ 10,719
Other:						
Accrued employee benefits	<u>158</u>	<u>-</u>	<u>(37)</u>	<u>121</u>	<u>(6)</u>	<u>115</u>
Totals	\$ <u>12,736</u>	\$ <u>-</u>	\$ <u>(1,030)</u>	\$ <u>11,706</u>	\$ <u>(872)</u>	\$ <u>10,834</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, 2010, 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, 2010:

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, 2010, 2009, and 2008 were \$ 3,430,350, \$ 3,250,290, and \$ 2,661,890, 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 2010, the Commonwealth of Massachusetts contributed \$ 6,190,160 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

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 June 30, 2009, the actuarial valuation date, approximately 463 retirees and 1008 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 2010 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, 2010, 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, 2009.

Annual Required Contribution (ARC)	\$ 6,661,999
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	6,661,999
Contributions made	(1,703,321)
Increase in net OPEB obligation	4,958,678
Net OPEB obligation - beginning of year	10,440,519
Net OPEB obligation - end of year	\$ 15,399,197

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

Fiscal year ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 6,661,999	26%	\$ 15,399,197
2009	\$ 12,080,283	14%	\$ 10,440,519

The Town's net OPEB obligation as of June 30, 2010 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 June 30, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 79,942,606
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>79,942,606</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	\$ <u>53,737,744</u>
UAAL as a percentage of covered payroll	<u>148.76%</u>

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, 2009 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 8.5% which decreases to a 5% long-term rate for all healthcare benefits after seven 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. 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.

19. Beginning Fund Balance Net Assets Restatement

The beginning (July 1, 2009) fund balances of the Town have been restated as follows:

Fund Basis Financial Statements:

	Non Major <u>Fund</u>	Internal Service <u>Fund</u>	<u>Total</u>
As previously reported	\$ 11,383,712	\$ 60,012	\$ 11,443,724
Closeout of Internal Service Fund	<u>60,012</u>	<u>(60,012)</u>	<u>-</u>
As restated	<u>\$ 11,443,724</u>	<u>\$ -</u>	<u>\$ 11,443,724</u>

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

**June 30, 2010
(Unaudited)**

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/09	\$ -	\$ 79,942,606	\$ 79,942,606	0.0%	\$ 53,737,744	148.76%
07/01/07	\$ -	\$ 116,638,532	\$ 116,638,532	0.0%	N/A	N/A

See Independent Auditors' Report.