

TOWN OF FRANKLIN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2018

Town of Franklin, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Franklin, Massachusetts

Additional Offices:

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Franklin, Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Franklin, Massachusetts, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Pension and OPEB schedules appearing on pages 58 to 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2019 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 solely

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 effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

March 6, 2019

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 for the fiscal year ended June 30, 2018.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include sewer, water and solid waste activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

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

Proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for sewer, water and solid waste operations. The sewer and water funds 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 and deferred outflows exceeded liabilities and deferred inflows by \$147,040,675 (i.e., net position), a change of \$(979,633) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$20,954,085, a change of \$1,190,856 in comparison to the prior year. This change is primarily due to activity associated with the ongoing library construction project.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,905,809, a change of \$1,244,629 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>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 35,450	\$ 37,324	\$ 13,066	\$ 13,572	\$ 48,516	\$ 50,896
Noncurrent assets	243,102	241,195	61,280	62,654	304,382	303,849
Total assets	278,552	278,519	74,346	76,226	352,898	354,745
Deferred outflows of resources	5,949	4,220	47	34	5,996	4,254
Current liabilities	17,858	21,200	2,599	6,752	20,457	27,952
Noncurrent liabilities	171,649	152,995	15,386	12,607	187,035	165,602
Total liabilities	189,507	174,195	17,985	19,359	207,492	193,554
Deferred inflows of resources	4,328	3,157	34	25	4,362	3,182
Net position:						
Net investment in capital assets	173,205	168,391	47,036	47,640	220,241	216,031
Restricted	12,034	12,064	-	-	12,034	12,064
Unrestricted	(94,573)	(75,068)	9,338	9,236	(85,235)	(65,832)
Total net position	\$ 90,666	\$ 105,387	\$ 56,374	\$ 56,876	\$ 147,040	\$ 162,263

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$147,040,675, a change of \$(979,633) from the prior year.

The largest portion of net position \$220,240,980 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$12,034,266 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(85,234,571). This deficit results from unfunded OPEB and net pension liabilities (see Notes 17 and 19).

	<u>CHANGES IN NET POSITION</u>					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 8,613	\$ 7,959	\$ 13,966	\$ 13,298	\$ 22,579	\$ 21,257
Operating grants and contributions	48,553	47,668	-	-	48,553	47,668
General revenues:						
Property taxes	73,647	70,343	-	-	73,647	70,343
Excises	6,095	5,994	-	-	6,095	5,994
Penalties, interest, and other taxes	317	341	-	-	317	341
Grants and contributions not restricted to specific programs	6,588	4,919	-	-	6,588	4,919
Investment income	66	57	24	25	90	82
Miscellaneous	320	1,735	443	48	763	1,783
Total revenues	144,199	139,016	14,433	13,371	158,632	152,387

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Expenses:						
General government	11,415	11,791	-	-	11,415	11,791
Public safety	14,909	14,313	-	-	14,909	14,313
Education	101,264	100,410	-	-	101,264	100,410
Public works	8,140	5,866	-	-	8,140	5,866
Human services	1,247	1,903	-	-	1,247	1,903
Culture and recreation	1,875	1,813	-	-	1,875	1,813
Interest on long-term debt	2,616	2,637	-	-	2,616	2,637
Intergovernmental	4,747	4,847	-	-	4,747	4,847
Sewer	-	-	6,031	5,964	6,031	5,964
Water	-	-	5,170	5,009	5,170	5,009
Sanitation	-	-	2,199	1,978	2,199	1,978
Total expenses	<u>146,213</u>	<u>143,580</u>	<u>13,400</u>	<u>12,951</u>	<u>159,613</u>	<u>156,531</u>
Change in net position before transfers	(2,014)	(4,564)	1,033	420	(981)	(4,144)
Transfers in (out)	<u>1,567</u>	<u>-</u>	<u>(1,567)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	(447)	(4,564)	(534)	420	(981)	(4,144)
* Net position - beginning of year, as restated	<u>91,113</u>	<u>109,951</u>	<u>56,908</u>	<u>56,456</u>	<u>148,021</u>	<u>166,407</u>
Net position - end of year	<u>\$ 90,666</u>	<u>\$ 105,387</u>	<u>\$ 56,374</u>	<u>\$ 56,876</u>	<u>\$ 147,040</u>	<u>\$ 162,263</u>

*Restated from the prior year as described in Note 21.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(446,086). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 1,554,790
Major capital project fund change in fund balance (accrual basis)	(3,172,015)
Nonmajor funds change in fund balance (accrual basis)	2,808,081
Depreciation expense in excess of principal debt service	(5,191,214)
Change in long-term liabilities	(6,181,022)
Bond proceeds	(2,443,500)
Capital asset additions	10,960,980
Other	<u>1,217,814</u>
Total	<u>\$ (446,086)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(533,547). Key elements of this change are as follows:

Sewer operations	\$ (645,108)
Water operations	368,089
Solid waste operations	<u>(256,528)</u>
Total	<u>\$ (533,547)</u>

D. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$20,954,085, a change of \$1,190,856 in comparison to the prior year. Key elements of this change are as follows:

General fund change in fund balance (explained in more detail below)	\$ 1,554,790
Major capital project fund change in fund balance	(3,172,015)
Nonmajor funds change in fund balance	<u>2,808,081</u>
Total	<u>\$ 1,190,856</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$11,905,809, while total fund balance was \$17,328,451. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ⁽¹⁾	\$ 11,905,809	\$ 10,661,180	\$ 1,244,629	9.8%
Total fund balance	\$ 17,328,451	\$ 15,773,661	\$ 1,554,790	14.2%

⁽¹⁾ Includes \$5,025,672 in general stabilization and \$1,864,846 in budget stabilization funds.

The total fund balance of the general fund changed by \$1,554,790 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 1,984,508
Expenditures less than budget	1,386,160
Use of free cash as a funding source	(2,810,815)
Property tax collections exceeding the current year tax levy	214,221
Change in encumbrances	60,417
Change in stabilization fund balance	685,607
Other	<u>34,692</u>
Total	<u>\$ 1,554,790</u>

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

	<u>6/30/18</u>	<u>6/30/17</u>	<u>Change</u>
General stabilization	\$ 5,025,672	\$ 5,098,095	\$ (72,423)
Budget stabilization	1,864,846	1,364,443	500,403
Athletic fields stabilization	157,894	6,762	151,132
Fire truck stabilization	105,386	4,629	100,757
Property acquisition stabilization	262,902	259,071	3,831
Traffic signal stabilization	<u>6,527</u>	<u>4,620</u>	<u>1,907</u>
Total	<u>\$ 7,423,227</u>	<u>\$ 6,737,620</u>	<u>\$ 685,607</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$9,338,351, a change of \$101,901 in comparison to the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$3,135,815. Major reasons for this change include:

\$ 22,500	appropriated for street lighting; funded by free cash.
10,815	appropriated for debt service interest; funded by free cash.
150,000	appropriated to fund the turf field stabilization fund; funded by free cash.
280,000	appropriated for continued funding of the OPEB Trust; funded by free cash.
100,000	appropriated to fund the fire truck stabilization fund; funded by free cash.
1,866,500	appropriated for the 2018 capital improvement plan; funded by free cash and a transfer from the ambulance receipts reserved fund.
300,000	appropriated for improvements to roads, sidewalks, drainage, storm water runoff, and infrastructure; funded by free cash.
186,000	appropriated for snow and ice salaries and expenses; funded by free cash.
20,000	appropriated for a Town-wide operational risk assessment; funded by free cash.
160,000	appropriated for the purchase of a sidewalk tractor; funded by free cash.
40,000	appropriated for fire department salaries; funded by free cash.
<u>\$ 3,135,815</u>	Total supplemental appropriations

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$303,736,525 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year include the following:

- \$3,249,810 for the library construction project.
- \$1,892,515 for various machinery and equipment, including public safety and highway vehicles.
- \$2,161,458 for various buildings and improvements, including the recreation building, fire station, Davis Thayer School, and artificial turf at the high school.
- \$3,644,174 for various road improvements.
- \$1,125,671 for sewer and water system improvements.
- Depreciation expense of \$(11,331,167).

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

Credit rating. During the fiscal year, the Town's Standard & Poor's credit rating remained unchanged at AA+.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$75,557,105, all of which was backed by the full faith and credit of the Town.

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

G. STABILIZATION FUNDS

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

At that point, the Town created two new stabilization accounts to set aside funds for known future costs. The Town voted to appropriate \$1,100,000 to pay for the Town's share of Town state-funded road projects and to replace a culvert. The second was a Debt Stabilization account to take the "peak" off the debt schedule the Town adopted

in accordance with our fiscal policy on debt. The Debt Stabilization account served its intended purpose and no funds currently remain in the account. In FY11, the Town Council voted to increase the Public Works Stabilization account for future related projects.

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

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

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

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

<u>As of June 30</u>	<u>Stabilization Fund Balance</u>	<u>Budget Stabilization</u>	<u>Debt Stabilization</u>	<u>Public Works Stabilization</u>	<u>Other Stabilization</u>	<u>Total Stabilization</u>
2018	\$ 5,026	\$ 1,865	\$ -	\$ -	\$ 532	\$ 7,423
2017	\$ 5,098	\$ 1,364	\$ -	\$ -	\$ 275	\$ 6,737
2016	\$ 5,104	\$ 1,343	\$ -	\$ -	\$ 1,614	\$ 8,061
2015	\$ 4,915	\$ 1,324	\$ -	\$ 277	\$ 1,295	\$ 7,811
2014	\$ 4,895	\$ 1,312	\$ -	\$ 277	\$ 1,646	\$ 8,130
2013	\$ 4,832	\$ 1,004	\$ -	\$ 276	\$ 882	\$ 6,994
2012	\$ 5,210	\$ -	\$ -	\$ 276	\$ 380	\$ 5,866
2011	\$ 4,779	\$ -	\$ -	\$ 275	\$ 5	\$ 5,059
2010	\$ 4,647	\$ -	\$ 380	\$ 130	\$ -	\$ 5,157
2009	\$ 4,573	\$ -	\$ 403	\$ 738	\$ -	\$ 5,714

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:

Finance Director's Office
355 East Central Street
Franklin, Massachusetts 02038

TOWN OF FRANKLIN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 20,999,602	\$ 9,226,004	\$ 30,225,606
Investments	11,927,712	-	11,927,712
Receivables, net of allowance for uncollectibles:			
Property taxes	556,883	-	556,883
Excises	458,465	-	458,465
User fees	671,985	3,823,685	4,495,670
Intergovernmental	833,679	-	833,679
Betterments	1,172	15,892	17,064
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	557,739	-	557,739
Betterments	4,688	83,438	88,126
Capital assets:			
Land and construction in progress	18,719,170	4,135,553	22,854,723
Other capital assets, net of accumulated depreciation	223,820,794	57,061,008	280,881,802
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>5,949,257</u>	<u>47,339</u>	<u>5,996,596</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	284,501,146	74,392,919	358,894,065
LIABILITIES			
Current:			
Warrants and accounts payable	1,346,914	644,420	1,991,334
Accrued liabilities	1,233,050	162,347	1,395,397
Notes payable	10,300,000	-	10,300,000
Tax refunds payable	50,000	-	50,000
Other current liabilities	858,160	-	858,160
Current portion of long-term liabilities:			
Bonds payable	3,968,500	1,784,569	5,753,069
Compensated absences	101,240	7,188	108,428
Noncurrent:			
Bonds payable, net of current portion	55,472,001	14,332,035	69,804,036
Net pension liability	40,896,625	325,425	41,222,050
Net OPEB liability	73,356,740	591,587	73,948,327
Compensated absences	1,923,561	136,564	2,060,125
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	4,035,951	32,115	4,068,066
Related to OPEB	287,839	2,321	290,160
Other	<u>4,238</u>	<u>-</u>	<u>4,238</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	193,834,819	18,018,571	211,853,390
NET POSITION			
Net investment in capital assets	173,204,983	47,035,997	220,240,980
Restricted for:			
Grants and other statutory restrictions	8,896,615	-	8,896,615
Permanent funds:			
Nonexpendable	503,930	-	503,930
Expendable	2,633,721	-	2,633,721
Unrestricted	<u>(94,572,922)</u>	<u>9,338,351</u>	<u>(85,234,571)</u>
TOTAL NET ASSETS	<u>\$ 90,666,327</u>	<u>\$ 56,374,348</u>	<u>\$ 147,040,675</u>

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

TOWN OF FRANKLIN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	General Fund	Library Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 11,222,787	\$ 424,415	\$ 9,352,400	\$ 20,999,602
Investments	8,445,361	-	3,482,351	11,927,712
Receivables:				
Property taxes	1,342,550	-	-	1,342,550
Excises	789,956	-	-	789,956
User fees	959,978	-	-	959,978
Intergovernmental	-	-	833,679	833,679
TOTAL ASSETS	\$ 22,760,632	\$ 424,415	\$ 13,668,430	\$ 36,853,477
LIABILITIES				
Warrants and accounts payable	\$ 1,221,467	\$ 18,895	\$ 103,401	\$ 1,343,763
Accrued liabilities	439,826	-	3,151	442,977
Notes payable	-	10,300,000	-	10,300,000
Tax refunds payable	50,000	-	-	50,000
Other liabilities	816,396	-	41,764	858,160
TOTAL LIABILITIES	2,527,689	10,318,895	148,316	12,994,900
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	2,904,492	-	-	2,904,492
FUND BALANCES				
Nonspendable	-	-	503,930	503,930
Restricted	63,199	-	11,930,804	11,994,003
Committed	5,029,423	-	1,388,891	6,418,314
Assigned	330,020	-	-	330,020
Unassigned	11,905,809	(9,894,480)	(303,511)	1,707,818
TOTAL FUND BALANCES	17,328,451	(9,894,480)	13,520,114	20,954,085
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 22,760,632	\$ 424,415	\$ 13,668,430	\$ 36,853,477

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

TOWN OF FRANKLIN, MASSACHUSETTS

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

JUNE 30, 2018

Total governmental fund balances	\$ 20,954,085
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	242,539,964
• Long-term receivable not reported in governmental funds.	5,860
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	2,052,841
• Long-term liabilities, including bonds payable, net pension liability, net OPEB liability, and accrued compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(175,718,667)
• Other	<u>832,244</u>
Net position of governmental activities	<u>\$ 90,666,327</u>

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

TOWN OF FRANKLIN, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Library Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 73,589,514	\$ -	\$ -	\$ 73,589,514
Excises	6,011,904	-	-	6,011,904
Penalties, interest and other taxes	288,841	-	568	289,409
Special assessments	1,524	-	-	1,524
Charges for services	2,685,264	-	4,384,446	7,069,710
Licenses and permits	1,341,529	-	-	1,341,529
Intergovernmental	38,744,157	-	8,883,114	47,627,271
Fines and forfeitures	116,462	-	3,225	119,687
Contributions	-	-	277,701	277,701
Investment income	142,103	-	(27,643)	114,460
Miscellaneous	111,773	68,795	506,685	687,253
	<u>123,033,071</u>	<u>68,795</u>	<u>14,028,096</u>	<u>137,129,962</u>
Total Revenues				
Expenditures:				
Current:				
General government	10,234,667	-	1,147,030	11,381,697
Public safety	11,235,006	-	376,010	11,611,016
Education	69,821,866	-	8,644,271	78,466,137
Public works	4,781,180	-	147,807	4,928,987
Health and human services	610,048	-	259,877	869,925
Culture and recreation	1,261,955	-	43,856	1,305,811
Insurance and benefits	10,238,468	-	13,320	10,251,788
Debt service	6,611,521	-	-	6,611,521
Intergovernmental	4,746,648	-	-	4,746,648
Capital outlay	2,236,218	3,249,810	4,354,426	9,840,454
	<u>121,777,577</u>	<u>3,249,810</u>	<u>14,986,597</u>	<u>140,013,984</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	1,255,494	(3,181,015)	(958,501)	(2,884,022)
Other Financing Sources (Uses):				
Issuance of bonds	-	-	2,443,500	2,443,500
Bond premiums	-	-	63,915	63,915
Transfers in	325,000	9,000	1,584,167	1,918,167
Transfers out	(25,704)	-	(325,000)	(350,704)
	<u>299,296</u>	<u>9,000</u>	<u>3,766,582</u>	<u>4,074,878</u>
Total Other Financing Sources (Uses)				
Change in fund balance	1,554,790	(3,172,015)	2,808,081	1,190,856
Fund Balance, at Beginning of Year as reclassified	15,773,661	(6,722,465)	10,712,033	19,763,229
Fund Balance, at End of Year	<u>\$ 17,328,451</u>	<u>\$ (9,894,480)</u>	<u>\$ 13,520,114</u>	<u>\$ 20,954,085</u>

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

TOWN OF FRANKLIN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2018

Net changes in fund balances - total governmental funds	\$ 1,190,856																				
<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>Capital outlay</td> <td style="text-align: right;">10,960,980</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(9,067,214)</td> </tr> </table> The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(2,443,500)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">3,876,000</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">(88,645)</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></td> <td style="text-align: right;">427,219</td> </tr> </table> Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: <table> <tr> <td>Net pension liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">(634,028)</td> </tr> <tr> <td>Net OPEB liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">(4,630,797)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">119,940</td> </tr> </table> Other differences <table> <tr> <td></td> <td style="text-align: right;"><u>(156,897)</u></td> </tr> </table> 		Capital outlay	10,960,980	Depreciation	(9,067,214)	Issuance of debt	(2,443,500)	Repayments of debt	3,876,000	Other	(88,645)		427,219	Net pension liability and related deferred outflows and inflows of resources	(634,028)	Net OPEB liability and related deferred outflows and inflows of resources	(4,630,797)	Other	119,940		<u>(156,897)</u>
Capital outlay	10,960,980																				
Depreciation	(9,067,214)																				
Issuance of debt	(2,443,500)																				
Repayments of debt	3,876,000																				
Other	(88,645)																				
	427,219																				
Net pension liability and related deferred outflows and inflows of resources	(634,028)																				
Net OPEB liability and related deferred outflows and inflows of resources	(4,630,797)																				
Other	119,940																				
	<u>(156,897)</u>																				
Change in net position of governmental activities	\$ <u><u>(446,086)</u></u>																				

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

TOWN OF FRANKLIN, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers In:				
Property taxes	\$ 73,375,293	\$ 73,375,293	\$ 73,375,293	\$ -
Motor vehicle excise	4,490,000	4,490,000	4,850,918	360,918
Other excise	975,000	975,000	1,160,986	185,986
Penalties, interest and other taxes	246,800	246,800	290,365	43,565
Charges for services	2,111,600	2,111,600	2,685,264	573,664
Licenses and permits	880,600	880,600	1,341,529	460,929
Intergovernmental	31,485,011	31,485,011	31,528,755	43,744
Fines and forfeitures	90,000	90,000	116,462	26,462
Investment income	75,000	75,000	181,496	106,496
Miscellaneous	6,000	6,000	188,744	182,744
Transfers in	1,098,000	1,423,000	1,423,000	-
Total Revenues and Transfers In	114,833,304	115,158,304	117,142,812	1,984,508
Expenditures and Transfers Out:				
General government	10,448,731	10,629,562	10,459,319	170,243
Public safety	11,296,434	11,336,434	11,211,743	124,691
Education	62,646,202	62,646,202	62,616,543	29,659
Public works	4,669,497	4,877,997	4,774,074	103,923
Health and human services	691,948	691,948	609,697	82,251
Culture and recreation	1,399,397	1,381,010	1,246,381	134,629
Employee benefits	11,481,398	11,480,567	11,056,468	424,099
Debt service	6,609,708	6,620,523	6,620,521	2
Intergovernmental	5,003,326	5,003,326	4,746,648	256,678
Capital outlay	-	2,184,887	2,111,198	73,689
Transfers out	475,000	1,005,000	1,018,704	(13,704)
Other uses	111,663	111,663	111,663	-
Total Expenditures and Transfers Out	114,833,304	117,969,119	116,582,959	1,386,160
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	-	(2,810,815)	559,853	3,370,668
Other Financing Sources:				
Use of free cash	-	2,810,815	2,810,815	-
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ 3,370,668	\$ 3,370,668

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

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Water Fund	Nonmajor Solid Waste Fund	
ASSETS				
Current:				
Cash and short-term investments	\$ 2,251,558	\$ 6,268,724	\$ 705,722	\$ 9,226,004
Receivables, net of allowance for uncollectibles:				
User fees	1,551,132	2,085,692	186,861	3,823,685
Betterments	<u>15,892</u>	<u>-</u>	<u>-</u>	<u>15,892</u>
Total current assets	3,818,582	8,354,416	892,583	13,065,581
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Betterments	83,438	-	-	83,438
Capital assets:				
Land and construction in progress	466,751	3,621,871	46,931	4,135,553
Other capital assets, net of accumulated depreciation	<u>10,701,688</u>	<u>46,239,620</u>	<u>119,700</u>	<u>57,061,008</u>
Total noncurrent assets	11,251,877	49,861,491	166,631	61,279,999
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	<u>13,152</u>	<u>34,187</u>	<u>-</u>	<u>47,339</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	15,083,611	58,250,094	1,059,214	74,392,919
LIABILITIES				
Current:				
Warrants and accounts payable	54,593	382,900	206,927	644,420
Accrued liabilities	31,651	129,354	1,342	162,347
Current portion of long-term liabilities:				
Bonds payable	291,696	1,492,873	-	1,784,569
Compensated absences	<u>2,889</u>	<u>4,025</u>	<u>274</u>	<u>7,188</u>
Total current liabilities	380,829	2,009,152	208,543	2,598,524
Noncurrent:				
Bonds payable, net of current portion	1,695,696	12,636,339	-	14,332,035
Net pension liability	90,415	235,010	-	325,425
Net OPEB liability	147,897	443,690	-	591,587
Compensated absences	<u>54,896</u>	<u>76,467</u>	<u>5,201</u>	<u>136,564</u>
Total noncurrent liabilities	1,988,904	13,391,506	5,201	15,385,611
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	8,923	23,192	-	32,115
Related to OPEB	<u>580</u>	<u>1,741</u>	<u>-</u>	<u>2,321</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	2,379,236	15,425,591	213,744	18,018,571
NET POSITION				
Net investment in capital assets	9,181,047	37,688,319	166,631	47,035,997
Unrestricted	<u>3,523,328</u>	<u>5,136,184</u>	<u>678,839</u>	<u>9,338,351</u>
TOTAL NET POSITION	<u>\$ 12,704,375</u>	<u>\$ 42,824,503</u>	<u>\$ 845,470</u>	<u>\$ 56,374,348</u>

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

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Water Fund	Nonmajor Solid Waste Fund	
Operating Revenues:				
Charges for services	\$ 5,377,804	\$ 6,666,007	\$ 1,922,253	\$ 13,966,064
Total Operating Revenues	5,377,804	6,666,007	1,922,253	13,966,064
Operating Expenses:				
Salaries and benefits	1,097,183	1,730,245	163,202	2,990,630
Other operating expenses	1,029,571	1,325,966	1,955,660	4,311,197
Depreciation	441,775	1,742,378	79,800	2,263,953
Intergovernmental assessments	3,405,807	-	-	3,405,807
Total Operating Expenses	5,974,336	4,798,589	2,198,662	12,971,587
Operating Income (Loss)	(596,532)	1,867,418	(276,409)	994,477
Nonoperating Revenues (Expenses):				
Investment income	8,377	13,746	2,409	24,532
Miscellaneous revenues	-	-	17,472	17,472
Interest expense	(56,953)	(371,621)	-	(428,574)
Total Nonoperating Revenues (Expenses)	(48,576)	(357,875)	19,881	(386,570)
Income (Loss) Before Transfers	(645,108)	1,509,543	(256,528)	607,907
Other Financing Sources (Uses)				
Bond premiums	-	426,009	-	426,009
Transfers out	-	(1,567,463)	-	(1,567,463)
Total Other Financing Sources (Uses)	-	(1,141,454)	-	(1,141,454)
Change in Net Position	(645,108)	368,089	(256,528)	(533,547)
Net Position at Beginning of Year, as restated	13,349,483	42,456,414	1,101,998	56,907,895
Net Position at End of Year	\$ 12,704,375	\$ 42,824,503	\$ 845,470	\$ 56,374,348

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

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Water Fund	Nonmajor Solid Waste Fund	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 5,242,911	\$ 6,295,497	\$ 1,921,692	\$ 13,460,100
Payments to vendors	(4,718,084)	(1,570,802)	(1,886,307)	(8,175,193)
Payments to employees	(1,083,692)	(1,694,760)	(161,599)	(2,940,051)
Net Cash Provided By (Used For) Operating Activities	(558,865)	3,029,935	(126,214)	2,344,856
<u>Cash Flows From Noncapital Financing Activities:</u>				
Miscellaneous revenues	-	-	17,472	17,472
Transfers out	-	(1,567,463)	-	(1,567,463)
Net Cash Provided By (Used For) Noncapital Financing Activities	-	(1,567,463)	17,472	(1,549,991)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	89,265	(1,002,129)	-	(912,864)
Principal payments on bonds	(292,696)	3,406,499	-	3,113,803
Proceeds of bonds and notes	-	(4,000,000)	-	(4,000,000)
Premium on bond anticipation notes	-	426,009	-	426,009
Interest expense	(69,078)	(412,129)	-	(481,207)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(272,509)	(1,581,750)	-	(1,854,259)
<u>Cash Flows From Investing Activities:</u>				
Investment income	8,377	13,746	2,409	24,532
Net Change in Cash and Short-Term Investments	(822,997)	(105,532)	(106,333)	(1,034,862)
Cash and Short-Term Investments, Beginning of Year	3,074,555	6,374,256	812,055	10,260,866
Cash and Short-Term Investments, End of Year	\$ 2,251,558	\$ 6,268,724	\$ 705,722	\$ 9,226,004
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income	\$ (596,532)	\$ 1,867,418	\$ (276,409)	\$ 994,477
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	441,775	1,742,378	79,800	2,263,953
Changes in assets, liabilities, and deferred outflows/inflows:				
User fees receivable	(134,894)	(370,765)	(561)	(506,220)
Deferred outflows - related to pensions	(3,822)	(9,935)	-	(13,757)
Warrants and accounts payable	(282,705)	(244,836)	70,695	(456,846)
Net pension liability	3,266	8,488	-	11,754
Net OPEB liability	8,756	26,268	-	35,024
Deferred inflows - related to pensions	1,959	5,090	-	7,049
Deferred inflows - related to OPEB	580	1,741	-	2,321
Other liabilities	2,752	4,088	261	7,101
Net Cash Provided By Operating Activities	\$ (558,865)	\$ 3,029,935	\$ (126,214)	\$ 2,344,856

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

TOWN OF FRANKLIN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2018

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ -	\$ 24,574	\$ 689,364
Investments:			
Pooled investments	-	93,266	-
External investment pool	4,488,685	-	-
Departmental receivable	-	-	56,321
Other assets	-	-	1,134,462
	<u>4,488,685</u>	<u>117,840</u>	<u>1,880,147</u>
Total Assets			
	4,488,685	117,840	1,880,147
LIABILITIES AND NET POSITION			
Other liabilities	<u>-</u>	<u>-</u>	<u>1,880,147</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>1,880,147</u>
NET POSITION			
Restricted for OPEB purposes	4,488,685	-	-
Restricted for other purposes	<u>-</u>	<u>117,840</u>	<u>-</u>
	<u>\$ 4,488,685</u>	<u>\$ 117,840</u>	<u>\$ -</u>

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

TOWN OF FRANKLIN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose Trust Funds <u>Trust Funds</u>
Additions:		
Contributions:		
Employers	\$ 3,136,488	\$ -
Other	<u>-</u>	<u>34,903</u>
Total contributions	3,136,488	34,903
Investment income:		
Interest	-	1,305
Increase (decrease) in fair value of investments	<u>360,711</u>	<u>-</u>
Net investment income (loss)	<u>360,711</u>	<u>1,305</u>
Total additions	3,497,199	36,208
Deductions:		
Benefit payments to plan members beneficiaries and other systems	2,334,488	-
Scholarship payments	<u>-</u>	<u>35,000</u>
Total deductions	<u>2,334,488</u>	<u>35,000</u>
Net increase	1,162,711	1,208
Net position:		
Beginning of year	<u>3,325,974</u>	<u>116,632</u>
End of year	<u>\$ 4,488,685</u>	<u>\$ 117,840</u>

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

TOWN OF FRANKLIN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation governed by an elected Town Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2018, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Library Construction Fund* accounts for activity associated with the reconstruction of the library.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under

this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- Sewer Fund
- Water Fund

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The *other post-employment benefit trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash

and short-term investments”. The interest earnings attributable to each fund type are included under investment income.

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

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

F. Property Tax Limitations

Legislation known as “Proposition 2½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2018 tax levy reflected an excess capacity of \$7,506.

G. Capital Assets

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

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

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

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

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or

improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds. 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 fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 123,033,071	\$ 121,777,577
Other financing sources/uses (GAAP Basis)	<u>325,000</u>	<u>25,704</u>
Subtotal (GAAP Basis)	123,358,071	121,803,281
Adjust tax revenue to accrual basis	(214,221)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(4,766,317)
Add end-of-year appropriation carryforwards to expenditures	-	4,826,734
Reverse effect of combining stabilization funds with general fund per GASB 54	39,393	725,000
Reclass non-budgeted items	<u>(6,040,431)</u>	<u>(6,005,739)</u>
Budgetary Basis	<u>\$ 117,142,812</u>	<u>\$ 116,582,959</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2018.

It is anticipated that the deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and grant revenues.

3. Cash and Short-Term Investments

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

and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.”

As of June 30, 2018, \$15,787,779 of the Town’s bank balance of \$33,657,217 was exposed to custodial credit risk as uninsured or uncollateralized. These funds are primarily held in four highly rated banks according to the Veribanc Report. All of the banks are rated GREEN/***.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-end</u>					<u>Not Rated</u>
			<u>Aaa</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>Baa2</u>	
U.S. Treasury notes	\$ 3,096	\$ -	\$ 3,096	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency securities	3,443	-	3,443	-	-	-	-	-
Corporate bonds	1,317	-	30	243	254	522	74	194
Certificates of deposits	3,331	3,331	-	-	-	-	-	-
Mutual funds	129	129	-	-	-	-	-	-
Corporate equities	705	705	-	-	-	-	-	-
PRIT*	4,489	4,489	-	-	-	-	-	-
Total investments	\$ 16,510	\$ 8,654	\$ 6,569	\$ 243	\$ 254	\$ 522	\$ 74	\$ 194

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust (PRIT) is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Per the Town’s investment policy, the Treasurer will review the financial institution’s financial statements and the

background of the Advisor. Further, all securities held by a third-party custodian will be held in the Town's name and tax identification number.

As of June 30, 2018, the Town did not have any investments exposed to custodial credit risk.

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. treasuries, government agency securities, and mutual funds) that represent 5% or more of total investments are as follows (in thousands):

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Bristol County Savings Bank certificate of deposit	\$ 1,000,000	0.00%
Dean Bank certificate of deposit	<u>1,025,418</u>	0.00%
Total	<u>\$ 2,025,418</u>	

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>				<u>N/A</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>		
U.S. Treasury notes	\$ 3,096	\$ 494	\$ 1,297	\$ 1,305	\$ -	
Federal agency securities	3,443	831	2,535	77	-	
Corporate bonds	1,317	40	1,182	95	-	
Certificates of deposit	3,331	2,575	756	-	-	
Mutual funds	129	-	-	-	129	
Corporate equities	705	-	-	-	705	
PRIT	<u>4,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,489</u>	
Total	<u>\$ 16,510</u>	<u>\$ 3,940</u>	<u>\$ 5,770</u>	<u>\$ 1,477</u>	<u>\$ 5,323</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.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by *Governmental Accounting Standards Board Statement No. 72 Fair Value Measurement and Application (GASB 72)*. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following fair value measurements as of June 30, 2018:

<u>Description</u>	<u>Fair Value Measurements Using:</u>			
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	\$ 3,096	\$ -	\$ 3,096	\$ -
Federal agency securities	3,443	-	3,443	-
Corporate bonds	1,317	-	1,317	-
Equity securities:				
Corporate equities	705	705	-	-
Mutual funds	129	129	-	-
Investments measured at the net asset value (NAV):				
External investment pool	<u>4,489</u>			
Total	<u>\$ 13,179</u>			
<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 4,489	\$ -	Monthly	30 days

5. Property Taxes and Excises Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 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.

The day after the final tax bill is due, 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.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Boat excise taxes are assessed annually for all water vessels, including documented boats and ships, used or capable of being used for transportation on water. A boat excise is assessed by the community where the vessel is moored. July 1 is the assessing date for all vessels, and the boat excise due is calculated using a fixed rate of \$10 per \$1,000 of value.

Property taxes and excise receivables at June 30, 2018 consist of the following:

	Gross Amount (fund basis)	Allowance for Doubtful Accounts	Net Amount (accrual basis)
Real estate taxes	\$ 439,677	\$ (48,304)	\$ 391,373
Personal property taxes	236,558	(113,121)	123,437
Tax liens	654,757	(65,476)	589,281
Other	11,558	(1,027)	10,531
Total property taxes	<u>\$ 1,342,550</u>	<u>\$ (227,928)</u>	1,114,622
Less current portion			<u>556,883</u>
Noncurrent taxes receivable			<u>\$ 557,739</u>
Motor vehicle excise	\$ 787,542	\$ (329,077)	\$ 458,465
Boat excise	2,414	(2,414)	-
Total excises	<u>\$ 789,956</u>	<u>\$ (331,491)</u>	<u>\$ 458,465</u>

6. User Fee Receivables

Receivables for user charges and betterments at June 30, 2018 consist of the following:

Receivables:	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Sewer	\$ 1,592,638	\$ (41,506)	\$ 1,551,132
Water	2,136,361	(50,669)	2,085,692
Solid Waste	212,318	(25,457)	186,861
Ambulance	959,978	(287,993)	671,985
Total	<u>\$ 4,901,295</u>	<u>\$ (405,625)</u>	<u>\$ 4,495,670</u>

7. Interfund Transfers

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of major interfund transfers.

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 325,000	\$ 25,704
Nonmajor Funds:		
Special revenue funds	16,704	325,000
Capital project funds	<u>1,567,463</u>	<u>-</u>
Subtotal Nonmajor Funds	<u>1,584,167</u>	<u>325,000</u>
Major Funds:		
Capital project funds	<u>9,000</u>	<u>-</u>
Subtotal Major Funds	<u>9,000</u>	<u>-</u>
Total Governmental Funds	1,918,167	350,704
<u>Business-Type Funds:</u>		
Water fund	<u>-</u>	<u>1,567,463</u>
Total Business-type Funds	<u>-</u>	<u>1,567,463</u>
Grand Total	<u>\$ 1,918,167</u>	<u>\$ 1,918,167</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2018 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	\$ 235,388	\$ 15,738	\$ -	\$ 251,126
Machinery, equipment, and furnishings	11,232	1,645	(471)	12,406
Infrastructure	<u>83,723</u>	<u>3,547</u>	<u>-</u>	<u>87,270</u>
Total capital assets, being depreciated	330,343	20,930	(471)	350,802
Less accumulated depreciation for:				
Buildings and improvements	(61,641)	(6,524)	-	(68,165)
Machinery, equipment, and furnishings	(7,606)	(749)	471	(7,884)
Infrastructure	<u>(49,138)</u>	<u>(1,794)</u>	<u>-</u>	<u>(50,932)</u>
Total accumulated depreciation	<u>(118,385)</u>	<u>(9,067)</u>	<u>471</u>	<u>(126,981)</u>
Total capital assets, being depreciated, net	211,958	11,863	-	223,821
Capital assets, not being depreciated:				
Land	18,611	12	-	18,623
Works of art	96	-	-	96
Construction in progress	<u>9,981</u>	<u>-</u>	<u>(9,981)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>28,688</u>	<u>12</u>	<u>(9,981)</u>	<u>18,719</u>
Governmental activities capital assets, net	<u>\$ 240,646</u>	<u>\$ 11,875</u>	<u>\$ (9,981)</u>	<u>\$ 242,540</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 306	\$ -	\$ -	\$ 306
Machinery, equipment, and furnishings	1,703	206	(83)	1,826
Infrastructure	108,379	919	-	109,298
	<u>110,388</u>	<u>1,125</u>	<u>(83)</u>	<u>111,430</u>
Total capital assets, being depreciated	110,388	1,125	(83)	111,430
Less accumulated depreciation for:				
Buildings and improvements	(134)	(7)	-	(141)
Machinery, equipment, and furnishings	(1,166)	(109)	83	(1,192)
Infrastructure	(50,889)	(2,147)	-	(53,036)
	<u>(52,189)</u>	<u>(2,263)</u>	<u>83</u>	<u>(54,369)</u>
Total accumulated depreciation	(52,189)	(2,263)	83	(54,369)
Total capital assets, being depreciated, net	58,199	(1,138)	-	57,061
Capital assets, not being depreciated:				
Land	4,348	-	(212)	4,136
	<u>4,348</u>	<u>-</u>	<u>(212)</u>	<u>4,136</u>
Total capital assets, not being depreciated	4,348	-	(212)	4,136
Business-type activities capital assets, net	<u>\$ 62,547</u>	<u>\$ (1,138)</u>	<u>\$ (212)</u>	<u>\$ 61,197</u>

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

Governmental Activities:	
General government	\$ 150
Public safety	767
Education	5,180
Public works	2,218
Health and human services	190
Culture and recreation	<u>562</u>
Total depreciation expense - governmental activities	<u>\$ 9,067</u>
Business-Type Activities:	
Sewer	\$ 441
Water	1,742
Solid waste	<u>80</u>
Total depreciation expense - business-type activities	<u>\$ 2,263</u>

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions, in accordance with GASB Statements No. 68, are more fully discussed in the corresponding pension note.

10. Warrants and Accounts Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018, as permitted by law. Accounts payable represent additional 2018 expenditures paid after July 15, 2018.

11. Notes Payable

The Town had the following bond anticipation notes outstanding at June 30, 2018:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/18</u>
Library reconstruction	1.83%	5/18/18	5/17/19	\$ 10,300,000
Total				\$ 10,300,000

The following summarizes activity in notes payable during fiscal year 2018:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Rollover</u>	<u>Bonded</u>	<u>Retired</u>	<u>Balance End of Year</u>
High School construction	\$ 4,660,000	\$ -	\$ (4,660,000)	\$ -	\$ -	\$ -
High School construction	-	-	4,660,000	(2,443,500)	(2,216,500)	-
Water infrastructure improvements	2,100,000	-	-	(2,100,000)	-	-
Road improvements	1,900,000	-	-	(1,725,000)	(175,000)	-
Library reconstruction	8,200,000	-	(8,191,000)	-	(9,000)	-
Library reconstruction	-	2,109,000	8,191,000	-	-	10,300,000
Total	\$ 16,860,000	\$ 2,109,000	\$ -	\$ (6,268,500)	\$ (2,400,500)	\$ 10,300,000

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 6/30/18
<u>Governmental Activities:</u>				
Outdoor recreational facilities	03/15/05	03/15/19	3.25 - 5.50	\$ 245,000
Outdoor recreational facilities	03/15/05	03/15/19	3.25 - 5.50	50,000
Keller-Sullivan School	03/15/05	03/15/25	3.25 - 5.50	2,574,001
General obligation (various uses)	03/01/09	03/01/19	2.00 - 5.00	960,000
School building repairs	05/02/12	06/30/22	2.00 - 4.00	800,000
General obligation refunding 2002	12/15/11	06/30/22	2.00 - 4.00	142,000
General obligation refunding 2003	12/15/11	06/30/22	2.00 - 4.00	1,894,000
General obligation refunding 2004	05/02/12	06/30/22	2.00 - 4.00	802,000
High School construction	08/15/13	06/15/38	4.13 - 5.00	39,750,000
General obligation refunding 2015	02/25/15	03/15/27	2.00 - 4.00	2,470,000
General obligation refunding 2016	06/15/16	03/01/28	4.00	7,310,000
General obligation municipal purpose	05/17/18	05/15/19	2.50-5.00	2,443,500
Total Governmental Activities				\$ <u>59,440,501</u>

	Original Issue	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/18
<u>Business-Type Activities:</u>				
MWPAT Title V	09/28/01	08/01/19	4.50 - 5.75	\$ 3,392
Sewer refunding 2002	12/15/11	06/30/23	2.00 - 4.00	160,000
Sewer refunding 2004	05/02/12	06/30/22	2.00 - 4.00	294,000
Sewer refunding 2015	02/25/15	03/15/27	2.00 - 4.00	1,530,000
Water treatment facility DW-02-12	11/15/04	08/01/24	2.50 - 5.25	2,428,712
Water mains	03/15/05	03/15/25	4.26	1,058,000
Water refunding 2002	12/15/11	06/30/23	2.00 - 4.00	329,000
Water refunding 2004	05/02/12	06/30/22	2.00 - 4.00	442,000
Water line replacement	08/15/13	06/15/28	4.00 - 5.00	3,660,000
Water refunding 2015	02/25/15	03/15/27	2.00 - 4.00	1,670,000
Water infrastructure improvements	05/17/18	05/15/19	2.50-5.00	4,541,500
Total Business-Type Activities				\$ <u>16,116,604</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,968,500	\$ 2,417,881	\$ 6,386,381
2020	3,657,000	2,280,036	5,937,036
2021	3,704,000	2,136,041	5,840,041
2022	3,770,000	1,976,251	5,746,251
2023	3,584,000	1,817,521	19,283,522
2024-2028	13,882,001	7,075,958	20,957,959
2029-2033	10,465,000	4,690,937	15,155,937
Thereafter	16,410,000	2,375,646	18,785,646
Total	\$ <u>59,440,501</u>	\$ <u>24,770,271</u>	\$ <u>84,210,772</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, 2018.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,784,569	\$ 590,167	\$ 2,374,736
2020	1,775,650	524,136	2,299,786
2021	1,771,325	455,953	2,227,278
2022	1,759,906	384,587	2,144,493
2023	1,655,277	325,236	1,980,513
2024-2028	5,674,877	861,175	6,536,052
2029-2031	1,695,000	133,305	1,828,305
Total	<u>\$ 16,116,604</u>	<u>\$ 3,274,559</u>	<u>\$ 19,391,163</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/17	Additions	Reductions	Total Balance 6/30/18	Less Current Portion	Equals Long-Term Portion 6/30/18
<u>Governmental Activities</u>						
Bonds payable	\$ 60,873	\$ 2,444	\$ (3,876)	\$ 59,441	\$ (3,969)	\$ 55,472
Net pension liability	39,420	1,477	-	40,897	-	40,897
Net OPEB liability	68,742	4,615	-	73,357	-	73,357
Other:						
Compensated absences	1,936	89	-	2,025	(101)	1,924
Subtotal - other	1,936	89	-	2,025	(101)	1,924
Totals	<u>\$ 170,971</u>	<u>\$ 8,625</u>	<u>\$ (3,876)</u>	<u>\$ 175,720</u>	<u>\$ (4,070)</u>	<u>\$ 171,650</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 13,003	\$ 4,542	\$ (1,428)	\$ 16,117	\$ (1,785)	\$ 14,332
Net pension liability	314	11	-	325	-	325
Net OPEB liability	554	38	-	592	-	592
Other:						
Compensated absences	137	7	-	144	(7)	137
Subtotal - other	137	7	-	144	(7)	137
Totals	<u>\$ 14,008</u>	<u>\$ 4,598</u>	<u>\$ (1,428)</u>	<u>\$ 17,178</u>	<u>\$ (1,792)</u>	<u>\$ 15,386</u>

13. Advance Refunding

Fiscal Year 2016

On June 15, 2016, the Town issued general obligation bonds in the amount of \$7,310,000 with an interest rate of 4.00% to advance refund \$7,760,000 of bonds with interest rates ranging from 3.50% to 4.50%. The bonds mature on March 1, 2020 through March 1, 2028 and are not callable. The general obligation bonds were issued at 1.6370% and, after paying issuance costs of \$80,250, the net proceeds were \$8,476,185. The net proceeds from the 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 bonds are called on March 1, 2019. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's financial statements.

As a result of the advance refunding, the Town reduced its total debt service cash flow requirements by \$733,115, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$667,666.

Defeased debt still outstanding at June 30, 2018 is \$7,760,000.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

15. Governmental Funds - Balances

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

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

The following types of fund balances are reported at June 30, 2018:

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

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

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

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

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

Following is a breakdown of the Town's fund balances at June 30, 2018:

	General Fund	Library Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 503,930	\$ 503,930
Total Nonexpendable	-	-	503,930	503,930
Restricted				
Reserve for excluded debt	63,199	-	-	63,199
Special revenue funds	-	-	8,896,615	8,896,615
Capital projects funds	-	-	400,468	400,468
Expendable trust funds	-	-	2,633,721	2,633,721
Total Restricted	63,199	-	11,930,804	11,994,003
Committed				
Reserve for continuing resolutions	4,496,714	-	-	4,496,714
Capital improvement stabilization funds	532,709	-	-	532,709
Expendable insurance reserves	-	-	1,388,891	1,388,891
Total Committed	5,029,423	-	1,388,891	6,418,314
Assigned				
Encumbrances	330,020	-	-	330,020
Total Assigned	330,020	-	-	330,020
Unassigned				
General fund	5,015,291	-	-	5,015,291
General stabilization fund	5,025,672	-	-	5,025,672
Budget stabilization fund	1,864,846	-	-	1,864,846
Special revenue funds deficits	-	-	(303,511)	(303,511)
Major capital project fund deficits	-	(9,894,480)	-	(9,894,480)
Total Unassigned	11,905,809	(9,894,480)	(303,511)	1,707,818
Total Fund Balance	\$ 17,328,451	\$ (9,894,480)	\$ 13,520,114	\$ 20,954,085

16. General Fund Unassigned Fund Balance

The unassigned general fund balances reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differed in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts General Laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the “snow and ice” appropriation. However, all such over-expenditures must be funded in the subsequent year’s tax rate.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 11,905,809
Stabilization fund	(6,890,518)
Tax refund estimate	<u>50,000</u>
Statutory (UMAS) Balance	<u>\$ 5,065,291</u>

17. Norfolk County Retirement System

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees’ retirement funds.

A. Plan Description

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Norfolk County Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System’s annual financial reports publicly available from the System located at 480 Neponset Street, Canton, Massachusetts 02021.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily

withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town's contribution to the System for the year ended June 30, 2018 was \$4,771,398, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Town reported a liability of \$41,222,050 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of

January 1, 2018. The Town's proportion of the net pension liability was based on an actuarially determined projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. At December 31, 2017, the Town's proportion was 7.4542%.

For the year ended June 30, 2018, the Town recognized pension expense of \$5,703,685. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,929,712	\$ -
Changes of assumptions	2,066,884	1,662,526
Net difference between projected and actual earnings on pension plan investments	-	1,273,297
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>1,132,243</u>
Total	<u>\$ 5,996,596</u>	<u>\$ 4,068,066</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 1,134,905
2020	882,084
2021	376,629
2022	<u>(465,088)</u>
Total	<u>\$ 1,928,530</u>

D. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.00%
Projected salary increases	3.5% to 5.5%
Investment rate of return	7.75%
Cost of living increases	3% of the first \$17,000 of retirement

Mortality rates were based on the RP-2014 Blue Collar Mortality Table adjusted with Scale MP-2014.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	32.0%	8.8%
International equities	17.5%	8.8%
Fixed income	19.0%	3.6%
Real estate	9.0%	7.4%
Private equity	8.5%	13.3%
Hedge funds	9.0%	7.4%
Real assets	<u>5.0%</u>	10.4%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2017 was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Under Chapter 32 of the MGL, employers are required to make the necessary contributions such that the pension plan reaches full funding status by 2040. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the System's net pension liability calculated using the discount rate of 7.75%, as well as what the Town's proportionate share of the net pension liability would be if it were

calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
\$ 53,345,406	\$ 41,222,050	\$ 30,923,178

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued System financial report.

18. Massachusetts Teachers’ Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers’ Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing, multi-employer defined benefit plan, as defined in *Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth’s reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers’ Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member’s highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit

payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Membership Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.

- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement - reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).
 - Disability – assumed to be in accordance with RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.00%	5.00%
Portfolio completion strategies	13.00%	3.60%
Core fixed income	12.00%	1.10%
Private equity	11.00%	6.60%
Real estate	10.00%	3.80%
Value added fixed income	10.00%	3.60%
Timber/natural resources	4.00%	3.20%
Hedge funds	0.00%	3.60%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>1% Decrease to 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 8.50%</u>
\$ 28,424,300	\$ 22,885,391	\$ 18,193,400

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by *GASB Statement No. 68, Accounting and Financial Reporting for Pensions* (GASB 68), and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Commonwealth Proportions Associated with the Town

In fiscal year 2017 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense associated with the Town was \$133,650,583 and \$13,949,500 respectively, based on a proportionate share of 0.584000%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

19. Other Post-Employment Benefits (GASB 74 and GASB 75)

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), replaces the requirements of *Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2010, the Town established an OPEB Trust Fund to provide funding for future employee health care costs.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of *Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods

and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through Tufts Health Plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

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

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	628
Active employees	<u>1,080</u>
Total	<u><u>1,708</u></u>

B. Investments

The OPEB trust fund assets consist of equities, fixed income, real estate, and alternatives.

Rate of return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was not available. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Investment rate of return	7.50%, net of OPEB plan investment expense
Discount rate	7.50%
Healthcare cost trend rates	5.0% for 2018

Mortality rates were based on the RP-2014 Blue Collar Mortality Table adjusted with Scale MP-2016, fully generational.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Large cap equities	14.50%	5.25%
Small/Mid cap equities	3.50%	5.75%
International equities	16.00%	7.60%
Emerging international equities	6.00%	9.10%
Core bonds	5.00%	2.75%
20+ yr. treasury STRIPS	2.00%	1.75%
TIPS	5.00%	3.25%
High-yield bonds	1.50%	3.75%
Bank loans	2.50%	4.50%
EMD (external)	1.00%	4.25%
EMD (local currency)	0.00%	6.00%
Distressed debt	3.00%	7.50%
Other credit opportunities	2.00%	5.80%
Private equity	11.00%	8.00%
Real estate	10.00%	6.10%
Timberland	4.00%	6.00%
Hedge funds and portfolio completion	13.00%	5.90%
Total	<u>100.00%</u>	

D. Discount Rate

The discount rate used to measure the net OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

E. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 78,437,012
Plan fiduciary net position	<u>4,488,685</u>
Net OPEB liability	<u>\$ 73,948,327</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 5.72%

F. Changes in the Net OPEB Liability

	<u>Increase (Decrease)</u>		
	Total OPEB Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net OPEB Liability <u>(a) - (b)</u>
Balances, beginning of year	\$ 72,621,770	\$ 3,325,974	\$ 69,295,796
Changes for the year:			
Service cost	2,749,555	-	2,749,555
Interest	5,560,968	-	5,560,968
Contributions - employer	-	3,113,747	(3,113,747)
Net investment income	-	383,452	(383,452)
Benefit payments	<u>(2,495,281)</u>	<u>(2,334,488)</u>	<u>(160,793)</u>
Net Changes	<u>5,815,242</u>	<u>1,162,711</u>	<u>4,652,531</u>
Balances, end of year	<u>\$ 78,437,012</u>	<u>\$ 4,488,685</u>	<u>\$ 73,948,327</u>

G. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
\$ 86,464,831	\$ 73,948,327	\$ 63,871,341

H. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it as calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$ 61,175,338	\$ 73,948,327	\$ 90,093,114

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized an OPEB expense of \$7,965,549. At June 30, 2018, the Town reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual OPEB investment earnings	\$ <u>290,160</u>
Total	\$ <u><u>290,160</u></u>

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	
2019	\$ 89,699
2020	89,699
2021	89,699
2022	<u>21,063</u>
Total	\$ <u><u>290,160</u></u>

20. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues 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.

21. Beginning Net Position Restatement and Beginning Fund Balance Reclassification

The beginning (July 1, 2017) net position of the Town has been restated and fund balance reclassified as follows:

Government-Wide Financial Statements:

	Governmental Activities	Business-Type Activities			Total
		Sewer Fund	Water Fund	Solid Waste Fund	
As previously reported	\$ 105,386,711	\$ 13,275,269	\$ 42,498,719	\$ 1,101,998	\$ 56,875,986
GASB 75 implementation	<u>(14,274,298)</u>	<u>74,214</u>	<u>(42,305)</u>	<u>-</u>	<u>31,909</u>
As restated	<u>\$ 91,112,413</u>	<u>\$ 13,349,483</u>	<u>\$ 42,456,414</u>	<u>\$ 1,101,998</u>	<u>\$ 56,907,895</u>

Fund Basis Financial Statements:

	High School Construction Fund	Nonmajor Governmental Funds	Total
	As previously reported	\$ (4,659,693)	\$ 15,371,726
Reclassification of prior year major fund	<u>4,659,693</u>	<u>(4,659,693)</u>	<u>-</u>
As reclassified	<u>\$ -</u>	<u>\$ 10,712,033</u>	<u>\$ 10,712,033</u>

TOWN OF FRANKLIN, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
JUNE 30, 2018
(Unaudited)

Norfolk County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	12/31/2017	7.454200%	\$41,222,050	\$ 22,986,553	179.33%	63.50%
June 30, 2017	12/31/2016	7.611400%	\$39,733,230	\$ 21,380,359	185.84%	61.60%
June 30, 2016	12/31/2015	7.611443%	\$41,346,324	\$ 20,361,675	203.06%	58.60%
June 30, 2015	12/31/2014	7.756292%	\$40,226,086	\$ 19,038,422	211.29%	60.10%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	6/30/2017	0.584000%	\$ -	\$ 133,650,583	\$ 133,650,583	\$ 39,656,333	-	54.25%
June 30, 2017	6/30/2016	0.594982%	\$ -	\$ 133,025,615	\$ 133,025,615	\$ 39,315,863	-	52.73%
June 30, 2016	6/30/2015	0.591007%	\$ -	\$ 121,095,209	\$ 121,095,209	\$ 37,463,272	-	55.38%
June 30, 2015	6/30/2014	0.584174%	\$ -	\$ 92,862,306	\$ 92,862,306	\$ 35,818,594	-	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF FRANKLIN, MASSACHUSETTS

SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)

**JUNE 30, 2018
(Unaudited)**

Norfolk County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$ 4,771,398	\$ 4,771,398	\$ -	\$ 22,986,553	20.76%
June 30, 2017	December 31, 2016	\$ 4,351,658	\$ 4,351,658	\$ -	\$ 21,380,359	20.35%
June 30, 2016	December 31, 2015	\$ 3,947,535	\$ 3,947,535	\$ -	\$ 20,361,675	19.39%
June 30, 2015	December 31, 2014	\$ 3,661,686	\$ 3,661,686	\$ -	\$ 19,038,422	19.23%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	June 30, 2017	\$ 7,215,402	\$ 7,215,402	\$ -	\$ 39,656,333	18.19%
June 30, 2017	June 30, 2016	\$ 6,691,065	\$ 6,691,065	\$ -	\$ 39,315,863	17.02%
June 30, 2016	June 30, 2015	\$ 6,039,677	\$ 6,039,677	\$ -	\$ 37,463,272	16.12%
June 30, 2015	June 30, 2014	\$ 5,475,922	\$ 5,475,922	\$ -	\$ 35,848,594	15.28%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

**TOWN OF FRANKLIN, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedule of Changes in the Net OPEB Liability (GASB 74 and 75)

(Unaudited)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 2,749,555	\$ 2,631,153
Interest on unfunded liability - time value of \$	5,560,968	5,151,437
Benefit payments, including refunds of member contributions	<u>(2,495,281)</u>	<u>(2,387,829)</u>
Net change in total OPEB liability	5,815,242	5,394,761
Total OPEB liability - beginning	<u>72,621,770</u>	<u>67,227,009</u>
Total OPEB liability - ending (a)	78,437,012	72,621,770
 Plan fiduciary net position		
Contributions - employer	3,113,747	3,219,829
Net investment income	383,452	521,740
Benefit payments, including refunds of member contributions	(2,311,621)	(2,387,829)
Other	<u>(22,867)</u>	<u>-</u>
Net change in plan fiduciary net position	1,162,711	1,353,740
Plan fiduciary net position - beginning	<u>3,325,974</u>	<u>1,972,234</u>
Plan fiduciary net position - ending (b)	<u>4,488,685</u>	<u>3,325,974</u>
Net OPEB liability (asset) - ending (a-b)	<u>\$ 73,948,327</u>	<u>\$ 69,295,796</u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**TOWN OF FRANKLIN, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74 and 75)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 78,437,012	\$ 72,621,770
Plan fiduciary net position	<u>4,488,685</u>	<u>3,325,974</u>
Net OPEB liability (asset)	<u>\$ 73,948,327</u>	<u>\$ 69,295,796</u>
Plan fiduciary net position as a percentage of the total OPEB liability	5.72%	4.58%

Schedule of Contributions

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 3,297,407	\$ 3,219,829
Contributions in relation to the actuarially determined contribution	<u>3,297,281</u>	<u>3,219,829</u>
Contribution deficiency (excess)	<u>\$ 126</u>	<u>\$ -</u>

Schedule of Investment Returns

	<u>2018</u>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	unavailable	unavailable

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Additional years will be displayed as they become available.*

See notes to Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.