

TOWN OF FRANKLIN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

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, 2017, 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, 2017, 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 59 to 63 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 January 5, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to

describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Melanson Heath

January 5, 2018

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, 2017.

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 finan-

cial 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 \$162,262,697 (i.e., net position), a change of \$(4,144,270) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$19,763,229, a change of \$ (5,767,262) 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 \$10,661,180, a change of \$(483,731) 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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 37,324	\$ 41,389	\$ 13,572	\$ 14,577	\$ 50,896	\$ 55,966
Noncurrent assets	241,195	237,806	62,654	60,539	303,849	298,345
Total assets	278,519	279,195	76,226	75,116	354,745	354,311
Deferred outflows	4,220	6,362	34	51	4,254	6,413
Current liabilities	21,200	19,765	6,752	4,655	27,952	24,420
Noncurrent liabilities	152,995	151,705	12,607	14,023	165,602	165,728
Total liabilities	174,195	171,470	19,359	18,678	193,554	190,148
Deferred inflows of resources	3,157	4,136	25	33	3,182	4,169
Net position:						
Net investment in capital assets	168,391	166,765	47,640	45,343	216,031	212,108
Restricted	12,064	12,022	-	-	12,064	12,022
Unrestricted	(75,068)	(68,836)	9,236	11,113	(65,832)	(57,723)
Total net position	\$ 105,387	\$ 109,951	\$ 56,876	\$ 56,456	\$ 162,263	\$ 166,407

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 \$162,262,697, a change of \$(4,144,270) from the prior year.

The largest portion of net position \$216,030,575 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 \$12,063,795 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 \$(65,831,673). 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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 7,959	\$ 7,541	\$ 13,298	\$ 13,431	\$ 21,257	\$ 20,972
Operating grants and contributions	47,668	43,538	-	-	47,668	43,538
General revenues:						
Property taxes	70,343	67,387	-	-	70,343	67,387
Excises	5,994	6,170	-	-	5,994	6,170
Penalties, interest, and other taxes	341	339	-	-	341	339
Grants and contributions not restricted to specific programs	4,919	4,464	-	-	4,919	4,464
Investment income	57	398	25	26	82	424
Miscellaneous	1,735	1,154	48	15	1,783	1,169
Total revenues	139,016	130,991	13,371	13,472	152,387	144,463

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Expenses:						
General government	11,791	13,649	-	-	11,791	13,649
Public safety	14,313	14,230	-	-	14,313	14,230
Education	100,410	90,835	-	-	100,410	90,835
Public works	5,866	5,368	-	-	5,866	5,368
Human services	1,903	1,480	-	-	1,903	1,480
Culture and recreation	1,813	1,679	-	-	1,813	1,679
Interest on long-term debt	2,637	2,960	-	-	2,637	2,960
Intergovernmental	4,847	4,827	-	-	4,847	4,827
Sewer	-	-	5,964	4,903	5,964	4,903
Water	-	-	5,009	5,945	5,009	5,945
Sanitation	-	-	1,978	1,845	1,978	1,845
Total expenses	<u>143,580</u>	<u>135,028</u>	<u>12,951</u>	<u>12,693</u>	<u>156,531</u>	<u>147,721</u>
Change in net position before transfers	(4,564)	(4,037)	420	779	(4,144)	(3,258)
Transfers in (out)	<u>-</u>	<u>(600)</u>	<u>-</u>	<u>(22)</u>	<u>-</u>	<u>(622)</u>
Change in net position	(4,564)	(4,637)	420	757	(4,144)	(3,880)
Net position - beginning of year	<u>109,951</u>	<u>114,588</u>	<u>56,456</u>	<u>55,699</u>	<u>166,407</u>	<u>170,287</u>
Net position - end of year	<u>\$ 105,387</u>	<u>\$ 109,951</u>	<u>\$ 56,876</u>	<u>\$ 56,456</u>	<u>\$ 162,263</u>	<u>\$ 166,407</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(4,564,623). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (1,367,841)
Nonmajor governmental funds change in funds balance, net of capital additions	3,549,334
Principal debt service in excess of depreciation expense	(4,695,321)
Capital additions funded by operating cash	4,034,926
Change in long-term liabilities	(5,165,575)
Change in deferred outflows	(2,141,650)
Change in deferred inflows	975,606
Other	<u>245,898</u>
Total	<u>\$ (4,564,623)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$420,353. Key elements of this change are as follows:

Sewer operations	\$ (725,290)
Water operations	1,190,160
Solid waste operations	<u>(44,517)</u>
Total	<u>\$ 420,353</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$19,763,229, a change of \$(5,767,262) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ (1,367,841)
Major High School construction fund operating results	(309,287)
Major library construction fund operating results	(5,357,467)
Nonmajor funds operating results	<u>1,267,333</u>
Total	<u>\$ (5,767,262)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10,661,180, while total fund balance was \$15,773,661. 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>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ⁽¹⁾	\$ 10,661,180	\$ 11,144,911	\$ (483,731)	8.6%
Total fund balance	\$ 15,773,661	\$ 17,141,502	\$ (1,367,841)	12.7%

⁽¹⁾ Includes \$5,098,095 in general stabilization and \$1,364,443 in budget stabilization funds.

The total fund balance of the general fund changed by \$(1,367,841) during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (3,759,500)
Change in stabilization	(1,323,095)
Revenues in excess of budget	1,769,831
Expenditures less than budget	1,134,014
Other	<u>810,909</u>
Total	<u>\$ (1,367,841)</u>

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

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
General stabilization	\$ 5,098,095	\$ 5,104,493	\$ (6,398)
Budget stabilization	1,364,443	1,342,956	21,487
Athletic fields stabilization	6,762	868,280	(861,518)
Fire truck stabilization	4,629	485,387	(480,758)
Property acquisition stabilization	259,071	254,991	4,080
Traffic signal stabilization	<u>4,620</u>	<u>4,608</u>	<u>12</u>
Total	<u>\$ 6,737,620</u>	<u>\$ 8,060,715</u>	<u>\$ (1,323,095)</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 \$9,236,450, a change of \$(1,876,322) 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 \$3,987,500. Major reasons for this change include:

\$ 45,000	appropriated to fund the purchase of Google applications platform; funded by free cash.
60,000	appropriated to fund the design and development of turf fields for the High School; funded by free cash.
35,000	appropriated for the purchase of E-permitting software; funded by free cash.
15,000	appropriated for the purchase of public safety antennas; funded by free cash.
9,000	appropriated for an actuarial study required by GASB 45 and 75; funded by free cash.
600,000	appropriated for the purchase of a fire truck; funded by free cash and a transfer from the fire truck stabilization fund.
1,531,000	appropriated for the 2017 capital improvement plan; funded by free cash.
212,500	appropriated for the purchase of land; funded by free cash.
85,000	appropriated for snow and ice salaries; funded by free cash.
500,000	appropriated for various infrastructure projects; funded by free cash.
500,000	appropriated for new turf fields at the High School; funded by free cash.
360,000	appropriated for the Other Post-Employment Benefits Trust fund; funded by free cash.
<u>35,000</u>	appropriated for improvements to the Town Common Stage; funded by free cash.
<u>\$ 3,987,500</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 \$303,193,848 (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 ongoing construction costs for the library and new high school, various building improvements, conservation land purchases, sewer and water system improvements, various street improvements, and the acquisition of vehicles, and equipment for various Town departments.

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

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$73,875,802, all of which was backed by the full faith and credit of the government.

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

G. STABILIZATION FUNDS

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

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

The Town Council voted in FY 2004, 2007 and 2008 to use general stabilization funds to balance the annual operating budget. However, once the fund reached the minimum amount established by the Town Council's fiscal policy (\$4.5 million or

5% of general operating budget), no other funds were used until FY2013, when the Town Council voted to use \$350,000 for the annual operating budget.

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

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

The table below sets forth stabilization fund balances at year-end for the last 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>
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
2008	\$ 4,137	\$ -	\$ 568	\$ 792	\$ -	\$ 5,497

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Franklin’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

TOWN OF FRANKLIN, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 24,139,787	\$ 10,260,866	\$ 34,400,653
Investments	11,381,397	-	11,381,397
Receivables, net of allowance for uncollectibles:			
Property taxes	684,831	-	684,831
Excises	375,386	-	375,386
User fees	471,878	3,291,361	3,763,239
Intergovernmental	269,180	-	269,180
Betterments	1,172	19,467	20,639
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	542,996	-	542,996
Betterments	5,860	105,967	111,827
Capital assets:			
Non-depreciable capital assets	28,688,273	4,348,360	33,036,633
Depreciable assets, net of accumulated depreciation	211,957,925	58,199,290	270,157,215
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>4,220,400</u>	<u>33,582</u>	<u>4,253,982</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	282,739,085	76,258,893	358,997,978
LIABILITIES			
Current:			
Warrants and accounts payable	1,927,892	1,102,352	3,030,244
Accrued liabilities	1,477,659	213,638	1,691,297
Notes payable	12,860,000	4,000,000	16,860,000
Tax refunds payable	101,779	-	101,779
Other liabilities	859,969	-	859,969
Current portion of long-term liabilities:			
Bonds payable	3,876,000	1,427,698	5,303,698
Other	96,808	6,846	103,654
Noncurrent:			
Bonds payable, net of current portion	56,997,001	11,575,103	68,572,104
Net pension liability	39,419,559	313,671	39,733,230
Net OPEB obligation	54,739,484	588,473	55,327,957
Other, net of current portion	1,839,348	130,060	1,969,408
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	3,150,132	25,066	3,175,198
Other	<u>6,743</u>	<u>-</u>	<u>6,743</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	177,352,374	19,382,907	196,735,281
NET POSITION			
Net investment in capital assets	168,391,039	47,639,536	216,030,575
Restricted for:			
Grants and other statutory restrictions	8,946,103	-	8,946,103
Permanent funds:			
Nonexpendable	503,930	-	503,930
Expendable	2,613,762	-	2,613,762
Unrestricted	<u>(75,068,123)</u>	<u>9,236,450</u>	<u>(65,831,673)</u>
TOTAL NET ASSETS	\$ <u>105,386,711</u>	\$ <u>56,875,986</u>	\$ <u>162,262,697</u>

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

TOWN OF FRANKLIN, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
<u>Expenses</u>		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:						
General government	\$ 11,790,559	\$ 898,555	\$ 1,259,005	\$ (9,632,999)	\$ -	\$ (9,632,999)
Public safety	14,313,386	2,220,589	715,815	(11,376,982)	-	(11,376,982)
Education	100,409,525	3,927,588	45,484,679	(50,997,258)	-	(50,997,258)
Public works	5,865,556	214,533	33,833	(5,617,190)	-	(5,617,190)
Health and human services	1,903,431	152,816	118,970	(1,631,645)	-	(1,631,645)
Culture and recreation	1,813,366	545,405	55,827	(1,212,134)	-	(1,212,134)
Interest	2,636,650	-	-	(2,636,650)	-	(2,636,650)
Intergovernmental	4,847,060	-	-	(4,847,060)	-	(4,847,060)
Total Governmental Activities	143,579,533	7,959,486	47,668,129	(87,951,918)	-	(87,951,918)
Business-Type Activities:						
Sewer services	5,964,245	5,229,750	-	-	(734,495)	(734,495)
Water services	5,009,278	6,151,532	-	-	1,142,254	1,142,254
Sanitation services	1,977,237	1,916,808	-	-	(60,429)	(60,429)
Total Business-Type Activities	12,950,760	13,298,090	-	-	347,330	347,330
Total	\$ 156,530,293	\$ 21,257,576	\$ 47,668,129	(87,951,918)	347,330	(87,604,588)
General Revenues and transfers:						
Property taxes				70,343,040	-	70,343,040
Excises				5,993,561	-	5,993,561
Penalties, interest and other taxes				341,098	-	341,098
Grants and contributions not restricted to specific programs				4,918,708	-	4,918,708
Investment income				57,014	25,270	82,284
Miscellaneous				1,733,874	47,753	1,781,627
Total general revenues				83,387,295	73,023	83,460,318
Change in Net Position				(4,564,623)	420,353	(4,144,270)
Net Position:						
Beginning of year				109,951,334	56,455,633	166,406,967
End of year				\$ 105,386,711	\$ 56,875,986	\$ 162,262,697

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

TOWN OF FRANKLIN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General Fund	High School Construction Fund	Library Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 10,263,471	\$ 6,531	\$ 2,046,511	\$ 11,823,274	\$ 24,139,787
Investments	7,836,089	-	-	3,545,307	11,381,396
Receivables:					
Property taxes	1,407,391	-	-	-	1,407,391
Excises	684,104	-	-	-	684,104
User fees	674,111	-	-	-	674,111
Intergovernmental	-	-	-	269,181	269,181
TOTAL ASSETS	\$ 20,865,166	\$ 6,531	\$ 2,046,511	\$ 15,637,762	\$ 38,555,970
LIABILITIES					
Warrants and accounts payable	\$ 1,087,761	\$ 6,224	568,976	\$ 264,931	\$ 1,927,892
Accrued liabilities	564,496	-	-	-	564,496
Notes payable	-	4,660,000	8,200,000	-	12,860,000
Tax refunds payable	101,779	-	-	-	101,779
Other liabilities	858,863	-	-	1,105	859,968
TOTAL LIABILITIES	2,612,899	4,666,224	8,768,976	266,036	16,314,135
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	2,478,606	-	-	-	2,478,606
FUND BALANCES					
Nonspendable	-	-	-	503,930	503,930
Restricted	71,082	-	-	13,831,893	13,902,975
Committed	4,602,743	-	-	1,381,580	5,984,323
Assigned	438,656	-	-	-	438,656
Unassigned	10,661,180	(4,659,693)	(6,722,465)	(345,677)	(1,066,655)
TOTAL FUND BALANCES	15,773,661	(4,659,693)	(6,722,465)	15,371,726	19,763,229
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 20,865,166	\$ 6,531	\$ 2,046,511	\$ 15,637,762	\$ 38,555,970

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, 2017

Total governmental fund balances	\$	19,763,229
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		240,646,198
• Long-term receivable not reported in governmental funds.		7,032
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.		1,781,348
• Long-term liabilities, including bonds payable, net pension liability, and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(156,968,200)
• Other		<u>157,104</u>
Net position of governmental activities	\$	<u><u>105,386,711</u></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, 2017

	General Fund	High School Construction Fund	Library Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 70,388,701	\$ -	\$ -	\$ -	\$ 70,388,701
Excises	6,016,365	-	-	-	6,016,365
Penalties, interest and other taxes	289,924	-	-	410	290,334
Special assessments	1,582	-	-	-	1,582
Charges for services	2,546,220	-	-	4,238,463	6,784,683
Licenses and permits	1,039,699	-	-	-	1,039,699
Intergovernmental	44,840,107	-	-	6,880,586	51,720,693
Fines and forfeitures	104,923	-	-	3,105	108,028
Contributions	-	-	-	271,036	271,036
Investment income	156,110	-	-	(61,394)	94,716
Miscellaneous	140,504	-	-	499,366	639,870
	<u>125,524,135</u>	<u>-</u>	<u>-</u>	<u>11,831,572</u>	<u>137,355,707</u>
Total Revenues					
Expenditures:					
Current:					
General government	9,654,038	-	-	1,050,462	10,704,500
Public safety	10,665,496	-	-	249,107	10,914,603
Education	74,286,962	-	-	9,600,431	83,887,393
Public works	4,370,636	-	-	21,870	4,392,506
Health and human services	637,326	-	-	214,238	851,564
Culture and recreation	1,208,235	-	-	100,163	1,308,398
Insurance and benefits	9,635,996	-	-	153,924	9,789,920
Debt service	6,615,545	-	-	-	6,615,545
Intergovernmental	4,847,059	-	-	-	4,847,059
Capital outlay	2,171,226	309,287	5,365,115	3,525,701	11,371,329
	<u>124,092,519</u>	<u>309,287</u>	<u>5,365,115</u>	<u>14,915,896</u>	<u>144,682,817</u>
Total Expenditures					
Excess (deficiency) of revenues over expenditures	1,431,616	(309,287)	(5,365,115)	(3,084,324)	(7,327,110)
Other Financing Sources (Uses):					
Transfers in	158,732	-	7,648	2,958,189	3,124,569
Transfers out	(2,958,189)	-	-	(166,380)	(3,124,569)
	<u>(2,799,457)</u>	<u>-</u>	<u>7,648</u>	<u>2,791,809</u>	<u>-</u>
Total Other Financing Sources (Uses)					
Special Item:					
Proceeds from sale of land	-	-	-	1,559,848	1,559,848
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,559,848</u>	<u>1,559,848</u>
Total Special Items					
Change in fund balance	(1,367,841)	(309,287)	(5,357,467)	1,267,333	(5,767,262)
Fund Balance, at Beginning of Year	17,141,502	(4,350,406)	(1,364,998)	14,104,393	25,530,491
	<u>17,141,502</u>	<u>(4,350,406)</u>	<u>(1,364,998)</u>	<u>14,104,393</u>	<u>25,530,491</u>
Fund Balance, at End of Year	\$ <u>15,773,661</u>	\$ <u>(4,659,693)</u>	\$ <u>(6,722,465)</u>	\$ <u>15,371,726</u>	\$ <u>19,763,229</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, 2017

Net changes in fund balances - total governmental funds	\$ (5,767,262)
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: 	
Capital outlay	12,068,609
Loss on disposal of assets	(77,279)
Depreciation	(8,535,321)
<ul style="list-style-type: none"> 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: 	
Repayments of debt	3,840,000
Change in net pension liability	1,600,360
Change in net OPEB liability	(6,792,169)
Other	26,234
<ul style="list-style-type: none"> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. 	
	99,354
<ul style="list-style-type: none"> Other differences 	<u>(1,027,149)</u>
Change in net position of governmental activities	<u><u>\$ (4,564,623)</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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers In:				
Property taxes	\$ 70,080,877	\$ 70,080,877	\$ 70,080,877	\$ -
Motor vehicle excise	4,254,384	4,254,384	4,864,864	610,480
Other excise	970,000	970,000	1,151,501	181,501
Penalties, interest and other taxes	257,600	257,600	291,506	33,906
Charges for services	1,910,400	1,910,400	2,546,220	635,820
Licenses and permits	1,000,000	1,000,000	1,039,699	39,699
Intergovernmental	31,157,445	31,157,445	31,258,122	100,677
Fines and forfeitures	94,000	94,000	104,923	10,923
Investment income	78,000	78,000	121,205	43,205
Miscellaneous	158,116	158,116	153,004	(5,112)
Transfers in	1,116,000	1,601,000	1,719,732	118,732
Total Revenues and Transfers In	111,076,822	111,561,822	113,331,653	1,769,831
Expenditures and Transfers Out:				
General government	9,552,340	10,509,754	10,314,092	195,662
Public safety	10,776,159	10,796,159	10,669,482	126,677
Education	60,709,726	60,709,726	60,665,895	43,831
Public works	4,321,978	4,413,978	4,289,774	124,204
Health and human services	647,069	648,363	637,668	10,695
Culture and recreation	1,263,003	1,252,503	1,219,281	33,222
Employee benefits	10,731,658	10,617,950	10,351,996	265,954
Debt service	6,822,784	6,822,784	6,615,545	207,239
Intergovernmental	5,009,105	5,009,105	4,847,059	162,046
Capital outlay	-	2,181,000	2,134,327	46,673
Transfers out	1,500,000	2,360,000	2,442,189	(82,189)
Total Expenditures and Transfers Out	111,333,822	115,321,322	114,187,308	1,134,014
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(257,000)	(3,759,500)	(855,655)	2,903,845
Other Financing Sources:				
Use of free cash and overlay surplus	257,000	3,759,500	3,759,500	-
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ 2,903,845	\$ 2,903,845

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

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Water Fund	Non-major Solid Waste Fund	
ASSETS				
Current:				
Cash and short-term investments	\$ 3,074,555	\$ 6,374,256	\$ 812,055	\$ 10,260,866
Receivables, net of allowance for uncollectibles:				
User fees	1,390,134	1,714,927	186,300	3,291,361
Betterments	19,467	-	-	19,467
Total current assets	4,484,156	8,089,183	998,355	13,571,694
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Betterments	105,967	-	-	105,967
Capital assets:				
Non-depreciable capital assets	679,558	3,621,871	46,931	4,348,360
Depreciable assets, net of accumulated depreciation	11,019,921	46,979,869	199,500	58,199,290
Total noncurrent assets	11,805,446	50,601,740	246,431	62,653,617
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	9,330	24,252	-	33,582
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
	16,298,932	58,715,175	1,244,786	76,258,893
LIABILITIES				
Current:				
Warrants and accounts payable	337,298	627,480	137,574	1,102,352
Accrued liabilities	43,776	169,862	-	213,638
Notes payable	-	4,000,000	-	4,000,000
Current portion of long-term liabilities:				
Bonds payable	292,696	1,135,002	-	1,427,698
Other	2,752	3,833	261	6,846
Total current liabilities	676,522	5,936,177	137,835	6,750,534
Noncurrent:				
Bonds payable, net of current portion	1,987,392	9,587,711	-	11,575,103
Net pension liability	87,149	226,522	-	313,671
Net OPEB obligation	213,355	375,118	-	588,473
Other, net of current portion	52,281	72,826	4,953	130,060
Total noncurrent liabilities	2,340,177	10,262,177	4,953	12,607,307
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	6,964	18,102	-	25,066
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
	3,023,663	16,216,456	142,788	19,382,907
NET POSITION				
Net investment in capital assets	9,419,391	37,973,714	246,431	47,639,536
Unrestricted	3,855,878	4,525,005	855,567	9,236,450
TOTAL NET POSITION	\$ 13,275,269	\$ 42,498,719	\$ 1,101,998	\$ 56,875,986

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, 2017

	Business-Type Activities Enterprise Funds			<u>Total</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Non-major Solid Waste Fund</u>	
Operating Revenues:				
Charges for services	\$ 5,229,750	\$ 6,151,532	\$ 1,916,808	\$ 13,298,090
Total Operating Revenues	5,229,750	6,151,532	1,916,808	13,298,090
Operating Expenses:				
Salaries and benefits	1,090,100	1,668,077	150,312	2,908,489
Other operating expenses	749,754	1,297,451	1,747,125	3,794,330
Depreciation	445,512	1,680,885	79,800	2,206,197
Intergovernmental assessments	3,593,880	-	-	3,593,880
Total Operating Expenses	5,879,246	4,646,413	1,977,237	12,502,896
Operating Income	(649,496)	1,505,119	(60,429)	795,194
Nonoperating Revenues (Expenses):				
Investment income	8,692	14,348	2,230	25,270
Miscellaneous revenues	513	33,558	13,682	47,753
Interest expense	(84,999)	(362,865)	-	(447,864)
Total Nonoperating Revenues (Expenses)	(75,794)	(314,959)	15,912	(374,841)
Change in Net Position	(725,290)	1,190,160	(44,517)	420,353
Net Position at Beginning of Year	14,000,559	41,308,559	1,146,515	56,455,633
Net Position at End of Year	\$ 13,275,269	\$ 42,498,719	\$ 1,101,998	\$ 56,875,986

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, 2017

	Business-Type Activities Enterprise Funds			Total
	Sewer Fund	Water Fund	Non-major Solid Waste Fund	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 5,359,710	\$ 6,319,893	\$ 1,893,461	\$ 13,573,064
Payments to vendors	(4,165,460)	(1,376,135)	(1,610,501)	(7,152,096)
Payments to employees	<u>(1,086,335)</u>	<u>(1,645,611)</u>	<u>(155,496)</u>	<u>(2,887,442)</u>
Net Cash Provided By (Used For) Operating Activities	107,915	3,298,147	127,464	3,533,526
<u>Cash Flows From Noncapital Financing Activities:</u>				
Miscellaneous revenues	<u>514</u>	<u>-</u>	<u>13,682</u>	<u>14,196</u>
Net Cash Provided By (Used For) Noncapital Financing Activities	514	-	13,682	14,196
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(380,263)	(4,006,234)	-	(4,386,497)
Principal payments on bonds	(300,696)	(1,178,422)	-	(1,479,118)
Proceeds of bonds and notes	-	2,000,000	-	2,000,000
Interest expense	(88,210)	(449,180)	-	(537,390)
Other Non-operating income	<u>-</u>	<u>33,559</u>	<u>-</u>	<u>33,559</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(769,169)	(3,600,277)	-	(4,369,446)
<u>Cash Flows From Investing Activities:</u>				
Investment income	<u>8,692</u>	<u>14,348</u>	<u>2,230</u>	<u>25,270</u>
Net Change in Cash and Short-Term Investments	(652,048)	(287,782)	143,376	(796,454)
Cash and Short-Term Investments, Beginning of Year	<u>3,726,603</u>	<u>6,662,038</u>	<u>668,679</u>	<u>11,057,320</u>
Cash and Short-Term Investments, End of Year	<u>\$ 3,074,555</u>	<u>\$ 6,374,256</u>	<u>\$ 812,055</u>	<u>\$ 10,260,866</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income	\$ (649,496)	\$ 1,505,119	\$ (60,429)	\$ 795,194
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	445,512	1,680,885	79,800	2,206,197
Changes in assets, liabilities, and deferred outflows/inflows:				
User fees receivable	129,960	168,344	(23,347)	274,957
Deferred outflows - related to pensions	4,735	12,307	-	17,042
Warrants and accounts payable	178,174	(78,683)	136,624	236,115
Net OPEB obligation	10,807	27,685	-	38,492
Net pension liability	(3,538)	(9,196)	-	(12,734)
Deferred inflows - related to pensions	(2,157)	(5,606)	-	(7,763)
Other liabilities	<u>(6,082)</u>	<u>(2,708)</u>	<u>(5,184)</u>	<u>(13,974)</u>
Net Cash Provided By Operating Activities	<u>\$ 107,915</u>	<u>\$ 3,298,147</u>	<u>\$ 127,464</u>	<u>\$ 3,533,526</u>

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

TOWN OF FRANKLIN, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2017

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ -	\$ 1,687	\$ 692,941
Investments	3,325,974	114,945	-
Departmental receivable	-	-	51,484
Other assets	-	-	1,299,677
Total Assets	<u>3,325,974</u>	<u>116,632</u>	<u>2,044,102</u>
 LIABILITIES AND NET POSITION			
Warrants payable	-	-	22,170
Other liabilities	-	-	2,021,932
Total Liabilities	<u>-</u>	<u>-</u>	<u>2,044,102</u>
 NET POSITION			
Total net position restricted for OPEB and other purposes	<u>\$ 3,325,974</u>	<u>\$ 116,632</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, 2017

	<u>Other Post Employment Benefits Trust Fund</u>	<u>Private Purpose Trust Funds</u>
Additions:		
Contributions:		
Employers	\$ 3,219,829	\$ -
Other	<u>-</u>	<u>22,542</u>
Total contributions	3,219,829	22,542
Investment income:		
Interest	-	830
Increase (decrease) in fair value of investments	<u>321,740</u>	<u>-</u>
Net investment income (loss)	<u>321,740</u>	<u>830</u>
Total additions	3,541,569	23,372
Deductions:		
Benefit payments to plan members beneficiaries and other systems	2,387,829	-
Scholarship payments	<u>-</u>	<u>15,650</u>
Total deductions	<u>2,387,829</u>	<u>15,650</u>
Net increase	1,153,740	7,722
Net position:		
Beginning of year	<u>2,172,234</u>	<u>108,910</u>
End of year	<u>\$ 3,325,974</u>	<u>\$ 116,632</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 2017, 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, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Town reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *High School Construction Fund* accounts for activity associated with the construction of the new high school.
- 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 2017 tax levy reflected an excess capacity of \$41,772.

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)	\$ 125,524,135	\$ 124,092,519
Other financing sources/uses (GAAP Basis)	<u>158,732</u>	<u>2,958,189</u>
Subtotal (GAAP Basis)	125,682,867	127,050,708
Adjust tax revenue to accrual basis	(307,824)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(4,237,710)
Add end-of-year appropriation carryforwards to expenditures	-	4,766,317
Reverse effect of combining stabilization funds with general fund per GASB 54	450,095	(873,000)
Reclass non-budgeted items	<u>(12,493,485)</u>	<u>(12,519,007)</u>
Budgetary Basis	<u>\$ 113,331,653</u>	<u>\$ 114,187,308</u>

D. Deficit Fund Equity

Certain individual funds reflected deficit balances as of June 30, 2017.

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, 2017, \$21,085,791 of the Town's bank balance of \$37,786,858 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>Baa1</u>	
U.S. Treasury notes	\$ 2,949	\$ -	\$ 2,949	\$ -	\$ -	\$ -	\$ -
Federal agency securities	3,585	-	3,574	-	-	-	11
Corporate bonds	907	-	31	145	250	481	-
Certificates of deposits	3,157	3,157	-	-	-	-	-
Mutual funds	235	235	-	-	-	-	-
Corporate equities	663	663	-	-	-	-	-
PRIT*	3,326	3,326	-	-	-	-	-
Total investments	\$ 14,822	\$ 7,381	\$ 6,554	\$ 145	\$ 250	\$ 481	\$ 11

**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, 2017, 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	6.75%
Dean Bank certificate of deposit	<u>1,012,781</u>	6.73%
Total	<u>\$ 2,012,781</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>More Than 10</u>	
U.S. Treasury notes	\$ 2,949	\$ 41	\$ 1,747	\$ 1,161	\$ -	\$ -
Federal agency securities	3,585	130	3,426	29	-	-
Corporate bonds	907	395	448	64	-	-
Certificates of deposit	3,157	2,163	994	-	-	-
Mutual funds	235	-	-	-	-	235
Corporate equities	663	-	-	-	-	663
PRIT	<u>3,326</u>	-	-	-	-	<u>3,326</u>
Total	<u>\$ 14,822</u>	<u>\$ 2,729</u>	<u>\$ 6,615</u>	<u>\$ 1,254</u>	<u>\$ -</u>	<u>\$ 4,224</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, 2017:

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Debt securities:			
U.S. Treasury notes	\$ 2,949	\$ -	\$ 2,949
Federal agency securities	3,585	-	3,585
Corporate bonds	907	-	907
Equity securities:			
Corporate equities	663	663	-
Mutual funds	235	235	-
Investments measured at the net asset value (NAV):			
External investment pool	<u>3,326</u>		
Total	<u>\$ 11,665</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	\$ 3,326	\$ -	Monthly	30 days

5. 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.

Taxes and excise receivables at June 30, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 566,023	\$ (63,920)	\$ 502,103
Personal property taxes	196,601	(61,492)	135,109
Tax liens	631,250	(53,125)	578,125
Other	13,517	(1,027)	12,490
Total property taxes	1,407,391	(179,564)	1,227,827
Motor vehicle excise	681,690	(306,865)	374,825
Boat excise	2,414	(1,853)	561
Total excises	684,104	(308,718)	375,386
Grand total	\$ 2,091,495	\$ (488,282)	\$ 1,603,213

6. User Fee Receivables

Receivables for user charges and betterments at June 30, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Sewer	\$ 1,434,708	\$ (44,574)	\$ 1,390,134
Water	1,769,923	(54,996)	1,714,927
Solid Waste	211,802	(25,502)	186,300
Ambulance	674,111	(202,233)	471,878
Total	\$ 4,090,544	\$ (327,305)	\$ 3,763,239

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	\$ 158,732	\$ 2,958,189
Library construction fund	7,648	-
Nonmajor Funds:		
Special revenue funds	3,000	105,752
Capital project funds	2,874,108	7,648
Expendable trust funds	<u>81,081</u>	<u>52,980</u>
Subtotal Nonmajor Funds	<u>2,958,189</u>	<u>166,380</u>
Total Governmental Funds	<u>\$ 3,124,569</u>	<u>\$ 3,124,569</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2017 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	\$ 234,338	\$ 1,050	\$ -	\$ 235,388
Machinery, equipment, and furnishings	11,148	838	(754)	11,232
Infrastructure	<u>79,912</u>	<u>3,811</u>	<u>-</u>	<u>83,723</u>
Total capital assets, being depreciated	325,398	5,699	(754)	330,343
Less accumulated depreciation for:				
Buildings and improvements	(55,496)	(6,145)	-	(61,641)
Machinery, equipment, and furnishings	(7,595)	(688)	677	(7,606)
Infrastructure	<u>(47,436)</u>	<u>(1,702)</u>	<u>-</u>	<u>(49,138)</u>
Total accumulated depreciation	<u>(110,527)</u>	<u>(8,535)</u>	<u>677</u>	<u>(118,385)</u>
Total capital assets, being depreciated, net	214,871	(2,836)	(77)	211,958
Capital assets, not being depreciated:				
Land	18,092	519	-	18,611
Works of art	-	96	-	96
Construction in progress	<u>4,227</u>	<u>7,795</u>	<u>(2,041)</u>	<u>9,981</u>
Total capital assets, not being depreciated	<u>22,319</u>	<u>8,410</u>	<u>(2,041)</u>	<u>28,688</u>
Governmental activities capital assets, net	<u>\$ 237,190</u>	<u>\$ 5,574</u>	<u>\$ (2,118)</u>	<u>\$ 240,646</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 281	\$ 25	\$ -	\$ 306
Machinery, equipment, and furnishings	1,775	86	(158)	1,703
Infrastructure	<u>104,104</u>	<u>4,275</u>	<u>-</u>	<u>108,379</u>
Total capital assets, being depreciated	106,160	4,386	(158)	110,388
Less accumulated depreciation for:				
Buildings and improvements	(128)	(6)	-	(134)
Machinery, equipment, and furnishings	(1,218)	(106)	158	(1,166)
Infrastructure	<u>(48,795)</u>	<u>(2,094)</u>	<u>-</u>	<u>(50,889)</u>
Total accumulated depreciation	<u>(50,141)</u>	<u>(2,206)</u>	<u>158</u>	<u>(52,189)</u>
Total capital assets, being depreciated, net	56,019	2,180	-	58,199
Capital assets, not being depreciated:				
Land	<u>4,348</u>	<u>-</u>	<u>-</u>	<u>4,348</u>
Total capital assets, not being depreciated	<u>4,348</u>	<u>-</u>	<u>-</u>	<u>4,348</u>
Business-type activities capital assets, net	<u>\$ 60,367</u>	<u>\$ 2,180</u>	<u>\$ -</u>	<u>\$ 62,547</u>

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

Governmental Activities:	
General government	\$ 149
Public safety	701
Education	5,129
Public works	2,100
Health and human services	155
Culture and recreation	<u>301</u>
Total depreciation expense - governmental activities	<u>\$ 8,535</u>
Business-Type Activities:	
Sewer	\$ 445
Water	1,681
Solid waste	<u>80</u>
Total depreciation expense - business-type activities	<u>\$ 2,206</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 Statement No. 68, Accounting and Financial Reporting for Pensions, are more fully discussed in Note 17.

10. Warrants and Accounts Payable

Warrants payable represent 2017 expenditures paid by July 15, 2017, as permitted by law. Accounts payable represent additional 2017 expenditures paid after July 15, 2017.

11. Anticipation Notes Payable

The Town had the following bond anticipation notes outstanding at June 30, 2017:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/17</u>
High School construction	2.00%	5/19/17	10/19/17	\$ 4,660,000
Library reconstruction	2.00%	5/19/17	5/18/18	8,200,000
Water infrastructure improvements	2.00%	5/19/17	5/18/18	2,100,000
Road improvements	2.00%	5/19/17	5/18/18	1,900,000
Total				<u>\$ 16,860,000</u>

The following summarizes activity in notes payable during fiscal year 2017:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Rollover</u>	<u>Bonded</u>	<u>Balance End of Year</u>
High School construction	\$ 4,550,000	\$ -	\$ (4,550,000)	\$ -	\$ -
Library reconstruction	7,000,000	-	(7,000,000)	-	-
Water infrastructure improvements	1,100,000	-	(1,100,000)	-	-
Road improvements	900,000	-	(900,000)	-	-
High School construction	-	110,000	4,550,000	-	4,660,000
Library reconstruction	-	1,200,000	7,000,000	-	8,200,000
Water infrastructure improvements	-	1,000,000	1,100,000	-	2,100,000
Road improvements	-	1,000,000	900,000	-	1,900,000
Total	<u>\$ 13,550,000</u>	<u>\$ 3,310,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,860,000</u>

12. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Original Issue	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
<u>Governmental Activities:</u>				
Outdoor recreational facilities	03/15/05	03/15/19	3.25 - 5.50	\$ 498,000
Outdoor recreational facilities	03/15/05	03/15/19	3.25 - 5.50	100,000
Keller-Sullivan School	03/15/05	03/15/25	3.25 - 5.50	2,954,001
General obligation (various uses)	03/01/09	03/01/19	2.00 - 5.00	1,920,000
School building repairs	05/02/12	06/30/22	2.00 - 4.00	1,000,000
General obligation refunding 2002	12/15/11	06/30/22	2.00 - 4.00	182,000
General obligation refunding 2003	12/15/11	06/30/22	2.00 - 4.00	2,289,000
General obligation refunding 2004	05/02/12	06/30/22	2.00 - 4.00	937,000
High School construction	08/15/13	06/15/38	4.13 - 5.00	40,885,000
General obligation refunding 2015	02/25/15	03/15/27	2.00 - 4.00	2,798,000
General obligation refunding 2016	06/15/16	03/01/28	4.00	7,310,000
Total Governmental Activities:				<u>\$ 60,873,001</u>

	Original Issue	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/17
<u>Business-Type Activities:</u>				
MWPAT Title V	09/28/01	08/01/19	4.50 - 5.75	\$ 5,088
Sewer refunding 2002	12/15/11	06/30/23	2.00 - 4.00	205,000
Sewer refunding 2004	05/02/12	06/30/22	2.00 - 4.00	345,000
Sewer refunding 2015	02/25/15	03/15/27	2.00 - 4.00	1,725,000
Water treatment facility DW-02-12	11/15/04	08/01/24	2.50 - 5.25	2,725,713
Water mains	03/15/05	03/15/25	4.26	1,213,000
Water refunding 2002	12/15/11	06/30/23	2.00 - 4.00	414,000
Water refunding 2004	05/02/12	06/30/22	2.00 - 4.00	518,000
Water line replacement	08/15/13	06/15/28	4.00 - 5.00	3,995,000
Water refunding 2015	02/25/15	03/15/27	2.00 - 4.00	1,857,000
Total Business-Type Activities:				<u>\$ 13,002,801</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,876,000	\$ 2,475,708	\$ 6,351,708
2019	3,910,000	2,323,048	6,233,048
2020	3,597,000	2,187,598	5,784,598
2021	3,644,000	2,046,603	5,690,603
2022	3,705,000	1,889,813	5,594,813
2023-2027	15,196,001	7,320,513	22,516,514
2028-2031	9,630,000	4,821,609	14,451,609
Thereafter	17,315,000	2,834,628	20,149,628
Total	<u>\$ 60,873,001</u>	<u>\$ 25,899,520</u>	<u>\$ 86,772,521</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, 2017.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,427,698	\$ 436,846	\$ 1,864,544
2019	1,443,069	386,772	1,829,841
2020	1,450,650	336,680	1,787,330
2021	1,446,325	284,747	1,731,072
2022	1,444,906	229,631	1,674,537
2023-2027	5,130,153	512,275	5,642,428
2028-2031	<u>660,000</u>	<u>26,400</u>	<u>686,400</u>
Total	\$ <u>13,002,801</u>	\$ <u>2,213,351</u>	\$ <u>15,216,152</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/16</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/17</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/17</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 64,713	\$ -	\$ (3,840)	\$ 60,873	\$ (3,876)	\$ 56,997
Net pension liability	41,020	-	(1,600)	39,420	-	39,420
Net OPEB liability	47,947	6,792	-	54,739	-	54,739
Other:						
Compensated absences	<u>1,962</u>	<u>33</u>	<u>(59)</u>	<u>1,936</u>	<u>(97)</u>	<u>1,839</u>
Subtotal - other	<u>1,962</u>	<u>33</u>	<u>(59)</u>	<u>1,936</u>	<u>(97)</u>	<u>1,839</u>
Totals	\$ <u>155,642</u>	\$ <u>6,825</u>	\$ <u>(5,499)</u>	\$ <u>156,968</u>	\$ <u>(3,973)</u>	\$ <u>152,995</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 14,482	\$ -	\$ (1,479)	\$ 13,003	\$ (1,428)	\$ 11,575
Net pension liability	326	-	(12)	314	-	314
Net OPEB liability	550	38	-	588	-	588
Other:						
Compensated absences	<u>151</u>	<u>-</u>	<u>(14)</u>	<u>137</u>	<u>(7)</u>	<u>130</u>
Subtotal - other	<u>151</u>	<u>-</u>	<u>(14)</u>	<u>137</u>	<u>(7)</u>	<u>130</u>
Totals	\$ <u>15,509</u>	\$ <u>38</u>	\$ <u>(1,505)</u>	\$ <u>14,042</u>	\$ <u>(1,435)</u>	\$ <u>12,607</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, 2017 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. The Town reports two items as deferred inflows of resources: one which is attributable to changes in the net pension liability, and the other which arises from the current financial resources measurement focus and the modified accrual basis of accounting in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 17. *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, 2017:

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, 2017:

	General Fund	High School Construction 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	71,082	-	-	-	71,082
Special revenue funds:					
School revolving funds	-	-	-	3,160,859	3,160,859
School circuit breaker	-	-	-	1,453,496	1,453,496
School choice	-	-	-	554,302	554,302
School grants and other funds	-	-	-	146,965	146,965
Town revolving funds	-	-	-	559,262	559,262
Town grants and other funds	-	-	-	744,178	744,178
Receipts reserved	-	-	-	2,327,041	2,327,041
Capital projects funds:					
Turf field replacement	-	-	-	1,373,000	1,373,000
Other bonded projects	-	-	-	899,028	899,028
Expendable trust funds:					
Affordable housing	-	-	-	1,074,428	1,074,428
Open space acquisition	-	-	-	1,095,297	1,095,297
Other trust funds	-	-	-	444,037	444,037
Total Restricted	71,082	-	-	13,831,893	13,902,975
Committed					
Reserve for continuing resolutions	4,327,660	-	-	-	4,327,660
Capital improvement stabilization funds	275,083	-	-	-	275,083
Expendable insurance reserves	-	-	-	1,381,580	1,381,580
Total Committed	4,602,743	-	-	1,381,580	5,984,323
Assigned					
Budgetary encumbrances	438,656	-	-	-	438,656
Total Assigned	438,656	-	-	-	438,656
Unassigned					
General fund	4,198,642	-	-	-	4,198,642
General stabilization fund	5,098,095	-	-	-	5,098,095
Budget stabilization fund	1,364,443	-	-	-	1,364,443
Special revenue funds:					
School grants	-	-	-	(204,674)	(204,674)
Town grants	-	-	-	(141,003)	(141,003)
Major capital project funds					
High school construction fund	-	(4,659,693)	-	-	(4,659,693)
Library construction fund	-	-	(6,722,465)	-	(6,722,465)
Total Unassigned	10,661,180	(4,659,693)	(6,722,465)	(345,677)	(1,066,655)
Total Fund Balance	\$ 15,773,661	\$ (4,659,693)	\$ (6,722,465)	\$ 15,371,726	\$ 19,763,229

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 & 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	\$ 10,661,180
Stabilization fund	(6,462,538)
Tax refund estimate	<u>101,779</u>
Statutory (UMAS) Balance	<u>\$ 4,300,421</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 three-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 10 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, 2017 was \$4,351,658, 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, 2017, the Town reported a liability of \$39,733,230 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. 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, 2016, the Town's proportion was 7.6114%.

For the year ended June 30, 2017, the Town recognized pension expense of \$4,119,045. 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	\$ 622,949	\$ -
Changes of assumptions	-	2,591,054
Net difference between projected and actual earnings on pension plan investments	3,631,033	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>584,144</u>
Total	<u>\$ 4,253,982</u>	<u>\$ 3,175,198</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:

2018	\$ 484,154
2019	484,154
2020	243,282
2021	<u>(132,806)</u>
Total	<u>\$ 1,078,784</u>

D. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, 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	8.00%
Cost of living increases	3% of the first \$15,000 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%	8.6%
International equities	17.5%	8.6%
Fixed income	19.0%	4.5%
Real estate	9.0%	5.1%
Private equity	8.5%	10.3%
Hedge funds	9.0%	13.1%
Real assets	5.0%	7.5%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2016 was 8.0%. 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 8.0%, 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 (7.0%) or 1 percentage-point higher (9.0%) than the current rate:

<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
\$ 50,272,558	\$ 39,733,230	\$ 30,698,832

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, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. 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 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct).
 - Disability – assumed to be in accordance with RP-2014 Healthy Annuitant table projected generationally with Scale BB 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, 2016 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	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	<u>4.0%</u>	5.4%
Total	<u>100.0%</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>
\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

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 \$133,025,615 and \$13,569,485 respectively, based on a proportionate share of 0.594982%. 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 – OPEB (GASB 45)

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2017, the actuarial valuation date, approximately 628 retirees and 1,080 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Post-1990 retirees contribute between 32% and 50% of the cost of the health plan and pre-1990 retirees contribute between 16% and 32%, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2017 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2017.

Normal Cost	\$ 5,608,472
Amortization of unfunded actuarially accrued liability	<u>4,330,312</u>
Annual Required Contribution (ARC)	9,938,784
Interest on net OPEB obligation	2,192,368
Adjustment to ARC	<u>(1,739,436)</u>
Annual OPEB cost	10,391,716
Expected benefit payments (pay as you go)	(2,729,055)
Contributions to OPEB Trust	<u>(832,000)</u>
Increase in net OPEB obligation	6,830,661
Net OPEB obligation - beginning of year	<u>48,497,296</u>
Net OPEB obligation - end of year	<u><u>\$ 55,327,957</u></u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 10,391,716	34.3%	\$ 55,327,957
2016	\$ 8,347,005	33.9%	\$ 48,497,296
2015	\$ 7,888,765	33.5%	\$ 42,978,822

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2017, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 124,612,277
Actuarial value of plan assets	<u>3,325,974</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 121,286,303</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>2.7%</u>
Covered payroll (active plan members)	<u>\$ 61,457,227</u>
UAAL as a percentage of covered payroll	<u>197.4%</u>

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2017 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was \$3,325,974. The actuarial assumptions included a 4.50% investment rate of return and an initial annual healthcare cost trend rate of 5.50% which decreases to a 4.50% long-term rate for all healthcare benefits after three years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.00%.

20. Other Post-Employment Benefits – OPEB (GASB 74)

In April 2015, the Town established an OPEB Trust fund to provide funding for future employee health care costs.

Investments

The OPEB Trust fund does not have a formal investment policy. At June 30, 2017, investments consisted of pooled funds with the Pension Reserves Investment Trust (PRIT). Concentration and rate of return information was not available.

Net OPEB Liability

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 72,621,770
Plan fiduciary net position	<u>3,325,974</u>
Net OPEB liability	<u>\$ 69,295,796</u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.58%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Healthcare cost trend rate	5.5% decreasing to 4.5% in 2019
Participation	95% of teachers and 70% of non-teachers for medical and 75% for life insurance
Investment rate of return	7.5 percent, net of OPEB plan investment expense, including inflation

Mortality rates for active employees were based on RP-2014 Blue Collar Mortality with scale MP-2016 fully generational. Mortality for retired member for group 1 and group 2 is represented by the RP-2014 Blue Collar Mortality Table set forward five years for males and 3 years for females fully generational. Mortality for retired members for Group 4 is represented by the RP-2014 Blue Collar Mortality Table set forward three years for males and six years for females fully generational. Mortality for disabled members for group 1 and 2 is represented by the RP-2000 Mortality Table set forward six years. Mortality for disabled members for Group 4 is represented by the RP-2000 Mortality table set forward two years. Generational adjusting is based on Scale MP-2016

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for 2015. As a result of the 2015

actuarial experience study, the expectation of life after disability was adjusted in the July 1, 2016 actuarial valuation to more closely reflect actual experience.

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, 2017 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%	5.75%
Small/Mid cap equities	3.50%	6.00%
International equities	16.00%	7.30%
Emerging international equities	6.00%	9.59%
Core bonds	5.00%	2.65%
20+ yr. treasury STRIPS	5.00%	1.50%
TIPS	3.00%	3.00%
High-yield bonds	1.50%	4.75%
Bank loans	1.50%	5.25%
EMD (external)	1.00%	4.75%
EMD (local currency)	2.00%	6.75%
Private debt	4.00%	8.02%
Private equity	10.00%	8.25%
Real estate	10.00%	6.00%
Timberland	4.00%	6.00%
Hedge funds & portfolio completion	13.00%	5.92%
Total	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan member will be made at the current contribution rate. Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

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 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current discount rate:

<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
\$ 80,940,192	\$ 69,295,796	\$ 59,922,232

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 were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.50% decreasing to 4.50%) or 1-percentage-point higher (5.50% increasing to 6.50%) than the current healthcare cost trend rates:

1% Decrease (4.50%)	Healthcare Cost Trend Rates (5.50%)	1% Increase (6.50%)
\$ 58,045,724	\$ 69,295,796	\$ 83,453,756

21. Subsequent Events

Subsequent to June 30, 2017, the Town rolled forward the following short-term debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond Anticipatory Note	\$ 4,660,000	2.00%	10/19/17	5/18/18

22. 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 indeterminate, although the Town expects such amounts, if any, to be immaterial.

23. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, replacing requirements of Statements No. 45 and 57, effective

for the Town beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB.

TOWN OF FRANKLIN, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)
JUNE 30, 2017
(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, 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, 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, 2017

(Unaudited)

Norfolk County Retirement System						
<u>Fiscal Year</u>	<u>Contractually Required Contribution</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, 2017	\$ 4,351,658	\$ 4,351,658	-	\$ -	\$ 21,380,359	20.35%
June 30, 2016	\$ 3,947,535	\$ 3,947,535	-	\$ -	\$ 20,361,675	19.39%
June 30, 2015	\$ 3,661,686	\$ 3,661,686	-	\$ -	\$ 19,038,422	19.23%

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 OPEB FUNDING PROGRESS (GASB 45)**

June 30, 2017

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits						
Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
06/30/17	\$ 3,326	\$ 124,612	\$ 121,286	2.7%	\$ 61,457	197.4%
06/30/15	\$ 1,456	\$ 93,976	\$ 92,520	1.5%	\$ 57,381	161.2%
06/30/13	\$ -	\$ 89,054	\$ 89,054	0.0%	\$ 53,066	167.8%
06/30/11	\$ -	\$ 84,749	\$ 84,749	0.0%	\$ 52,999	159.9%
06/30/09	\$ -	\$ 79,942	\$ 79,942	0.0%	\$ 53,737	148.8%
06/30/07	\$ -	\$ 116,638	\$ 116,638	0.0%	N/A	N/A

See Independent Auditors' Report.

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

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

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 2,631,153
Interest on unfunded liability - time value of \$	5,151,437
Benefit payments, including refunds of member contributions	<u>(2,387,829)</u>
Net change in total OPEB liability	5,394,761
Total OPEB liability - beginning	<u>67,227,009</u>
Total OPEB liability - ending (a)	\$ <u>72,621,770</u>
 Plan fiduciary net position*	
Contributions - employer	\$ 3,219,829
Net investment income	521,740
Benefit payments, including refunds of member contributions	<u>(2,387,829)</u>
Net change in plan fiduciary net position	1,353,740
Plan fiduciary net position - beginning	<u>1,972,234</u>
Plan fiduciary net position - ending (b)	\$ <u>3,325,974</u>
 Net OPEB liability (asset) - ending (a-b)	\$ <u>69,295,796</u>

*Reflects certain rounding and immaterial classification differences from page 24.

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)

(Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 72,621,770
Plan fiduciary net position	<u>3,325,974</u>
Net OPEB liability (asset)	<u>\$ 69,295,796</u>
Plan fiduciary net position as a percentage of the total OPEB liability	4.58%
Covered payroll	\$ 61,457,227
Participating employer net OPEB liability (asset) as a percentage of covered payroll	112.75%

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 3,219,829
Contributions in relation to the actuarially determined contribution	<u>3,219,829</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll	\$ 61,457,227
Contributions as a percentage of covered payroll	5.24%

Schedule of Investment Returns

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

*Schedules are intended to show information for 10 years.
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.