

TOWN OF FRANKLIN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

Town of Franklin, Massachusetts

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	20
Proprietary Funds:	
Statement of Net Position	21
Statement of Revenues, Expenses, and Changes in Fund Net Position	22
Statement of Cash Flows	23
Fiduciary Funds:	
Statement of Fiduciary Net Position	24
Statement of Changes in Fiduciary Net Position	25
Notes to Financial Statements	26
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of OPEB Funding Progress	60
Schedule of Proportionate Share of the Net Pension Liability	61
Schedule of Pension Contributions	62

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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Franklin, Massachusetts, as of June 30, 2016, 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, the Schedule of OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension Contributions 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 February 22, 2017 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

February 22, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Franklin we offer readers this narrative overview and analysis of the financial activities of the Town of Franklin for the fiscal year ended June 30, 2016.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide

financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$166,406,967 (i.e., net position), a change of \$(3,879,531) in comparison to the prior year.
- As of the close of the current fiscal year, governmental activities reported unrestricted net position of \$(68,835,656), a change of \$(6,233,182), in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$25,530,491, a change of \$(2,471,457) in comparison to the prior year. This change is primarily due to activity associated with the ongoing High School construction project and the library construction project.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,144,911, a change of \$1,458,061 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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 41,389	\$ 38,088	\$ 14,577	\$ 14,963	\$ 55,966	\$ 53,051
Noncurrent assets	237,806	237,659	60,539	58,464	298,345	296,123
Deferred outflows	6,362	1,648	51	13	6,413	1,661
Total assets and deferred outflows	285,557	277,395	75,167	73,440	360,724	350,835
Current liabilities	19,765	13,405	4,655	2,284	24,420	15,689
Noncurrent liabilities	151,705	149,395	14,023	15,457	165,728	164,852
Deferred inflows of resources	4,136	7	33	-	4,169	7
Total liabilities and deferred inflows	175,606	162,807	18,711	17,741	194,317	180,548
Net position:						
Net investment in capital assets	166,765	164,652	45,343	42,133	212,108	206,785
Restricted	12,022	12,538	-	-	12,022	12,538
Unrestricted	(68,836)	(62,602)	11,113	13,566	(57,723)	(49,036)
Total net position	\$ 109,951	\$ 114,588	\$ 56,456	\$ 55,699	\$ 166,407	\$ 170,287

CHANGES IN NET POSITION						
	Governmental Activities		Business-Type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 7,541	\$ 6,862	\$ 13,431	\$ 13,846	\$ 20,972	\$ 20,708
Operating grants and contributions	43,538	40,670	-	-	43,538	40,670
General revenues:						
Property taxes	67,387	65,340	-	-	67,387	65,340
Excises	6,170	5,298	-	-	6,170	5,298
Penalties, interest, and other taxes	339	309	-	-	339	309
Grants and contributions not restricted to specific programs	4,464	13,083	-	-	4,464	13,083
Investment income	398	149	26	28	424	177
Miscellaneous	<u>1,154</u>	<u>282</u>	<u>15</u>	<u>11</u>	<u>1,169</u>	<u>293</u>
Total revenues	130,991	131,993	13,472	13,885	144,463	145,878
Expenses:						
General government	13,649	12,003	-	-	13,649	12,003
Public safety	14,230	10,110	-	-	14,230	10,110
Education	90,835	74,705	-	-	90,835	74,705
Public works	5,368	7,124	-	-	5,368	7,124
Human services	1,480	935	-	-	1,480	935
Culture and recreation	1,679	1,643	-	-	1,679	1,643
Employee benefits	-	14,060	-	-	-	14,060
Interest on long-term debt	2,960	2,918	-	-	2,960	2,918
Intergovernmental	4,827	5,003	-	-	4,827	5,003
Sewer	-	-	4,903	3,909	4,903	3,909
Water	-	-	5,945	5,076	5,945	5,076
Sanitation	-	-	1,845	1,936	1,845	1,936
Total expenses	<u>135,028</u>	<u>128,501</u>	<u>12,693</u>	<u>10,921</u>	<u>147,721</u>	<u>139,422</u>
Change in net position before transfers	(4,037)	3,492	779	2,964	(3,258)	6,456
Transfers in (out)	<u>(600)</u>	<u>400</u>	<u>(22)</u>	<u>(1,022)</u>	<u>(622)</u>	<u>(622)</u>
Change in net position	(4,637)	3,892	757	1,942	(3,880)	5,834
Net position - beginning of year	<u>114,588</u>	<u>110,696</u>	<u>55,699</u>	<u>53,757</u>	<u>170,287</u>	<u>164,453</u>
Net position - end 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>

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 \$166,406,967, a change of \$(3,879,531) from the prior year.

The largest portion of net position \$212,108,255 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure); less any related debt used to acquire those assets that is still outstanding. These capital

assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$12,021,596 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 \$(57,722,884), resulting from unfunded OPEB and net pension liabilities (see Notes 20 and 21).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(4,636,285). Key elements of this change are as follows:

General fund revenues and transfers in excess of expenditures and transfers out	\$ 910,020
Nonmajor governmental funds change in funds balance, net of capital additions	(469,210)
Depreciation expense in excess of principal debt service expense	(2,705,195)
Capital additions funded by operating cash	4,435,084
Increase in net OPEB obligation	(5,491,999)
Change in net pension liability	(1,111,395)
MSBA grants recognized in prior years	(825,933)
Change in deferred outflows	4,714,029
Change in deferred inflows	(4,125,738)
Other	34,052
Total	<u>\$ (4,636,285)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$756,754. Key elements of this change are as follows:

Sewer operations	\$ 214,684
Water operations	511,456
Solid waste operations	30,614
Total	<u>\$ 756,754</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 infor-

mation 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 \$25,530,491, a change of \$(2,471,457) in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and other financing sources in excess of expenditures and transfers out	\$ 910,020
High School construction expenditures in excess of revenues and other financing sources	(1,553,769)
Library construction expenditures in excess of revenues	(1,358,498)
Special revenue fund revenues and transfers in excess of expenditures and transfers out	(446,397)
Nonmajor capital projects fund expenditures and transfers out in excess of revenues	388,522
Trust fund expenditures and transfers out in excess of revenues	<u>(411,335)</u>
Total	<u>\$ (2,471,457)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$11,144,911, while total fund balance was \$17,141,502. 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>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ⁽¹⁾	\$ 11,144,911	\$ 9,686,850	\$ 1,458,061	10.4%
Total fund balance	\$ 17,141,502	\$ 16,231,482	\$ 910,020	16.0%

⁽¹⁾ Includes \$5,104,493 in general stabilization and \$1,342,956 in budget stabilization funds.

The total fund balance of the general fund changed by \$910,020 during the current fiscal year. Key factors in this change are as follows:

Use of free cash, overlay surplus, and other reserves as a funding source	\$ (2,968,096)
Add back transfers to stabilization funds	<u>300,000</u>
Subtotal	(2,668,096)
Revenues in excess of budget	1,931,319
Expenditures less than budget	2,067,506
Other	<u>(420,709)</u>
Total	<u>\$ 910,020</u>

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

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
General stabilization	\$ 5,104,493	\$ 4,915,019	\$ 189,474
Budget stabilization	1,342,956	1,324,442	18,514
Public works stabilization	-	277,281	(277,281)
Athletic fields stabilization	868,280	658,546	209,734
Fire truck stabilization	485,387	379,813	105,574
Property acquisition stabilization	254,991	251,476	3,515
Traffic signal stabilization	<u>4,608</u>	<u>4,597</u>	<u>11</u>
Total	\$ <u>8,060,715</u>	\$ <u>7,811,174</u>	\$ <u>249,541</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 \$11,112,772, a change of \$(2,453,451) 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 \$3,304,795. Major reasons for this change include:

\$ 600,000	appropriated to fund purchase land and renovation of improved property for the Recreation Department; funded by overlay surplus.
10,000	appropriated to fund records organization, management, and disposal for the Assessors Department; funded by overlay surplus.
22,086	appropriated for the construction of sidewalks; funded by free cash
100,000	appropriated for the fire truck stabilization fund; funded by free cash.
200,000	appropriated for the athletic fields capital improvement stabilization fund; funded by free cash.
1,838,009	appropriated for the 2016 capital improvement plan; funded by free cash and a transfer from the ambulance receipts reserved fund
41,700	appropriated for improvements to the recreation fields; funded by a transfer from the A. B. Fletcher Trust fund

(continued)

(continued)

41,700	appropriated for improvements to the recreation fields; funded by a transfer from the A. B. Fletcher Trust fund
60,000	appropriated for the downtown improvement project; funded by free cash
200,000	appropriated for road construction and maintenance; funded by free cash.
200,000	appropriated for the Other Post-Employment Benefits Trust fund; funded by free cash.
33,000	appropriated for the Beaver Street survey and sidewalk study; funded by free cash.
<hr/>	
\$ 3,304,795	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 \$297,557,539 (net of accumulated depreciation), a change of \$2,205,394 from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

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

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

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$79,194,920, all of which was backed by the full faith and credit of the government.

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

G. STABILIZATION FUNDS

In the late 1990s, the Town settled a legal case and received over six million dollars. The funds were paid to the Town over several years. All funds received from the settlement were voted into the general Stabilization Fund, resulting in a balance

of over \$9,000,000 in the account. The Stabilization Fund, plus interest, may be appropriated at any Town Council meeting for any municipal purpose. The Town always maintained a “traditional” general fund stabilization account.

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

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

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

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

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

<u>As of June 30</u>	<u>Stabilization Fund Balance</u>	<u>Budget Stabilization</u>	<u>Debt Stabilization</u>	<u>Public Works Stabilization</u>	<u>Other Stabilization</u>	<u>Total Stabilization</u>
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, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 25,225,825	\$ 11,057,320	\$ 36,283,145
Investments	14,933,977	-	14,933,977
Receivables, net of allowance for uncollectibles:			
Property taxes	475,069	-	475,069
Excises	398,190	-	398,190
User fees	354,633	3,499,845	3,854,478
Betterments	1,172	20,091	21,263
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	609,168	-	609,168
Betterments	7,032	171,816	178,848
Land and construction in progress	22,318,748	4,348,360	26,667,108
Capital assets being depreciated, net of accumulated depreciation	214,871,441	56,018,990	270,890,431
DEFERRED OUTFLOWS OF RESOURCES	<u>6,362,050</u>	<u>50,624</u>	<u>6,412,674</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	285,557,305	75,167,046	360,724,351
LIABILITIES			
Current:			
Warrants and accounts payable	1,875,462	866,220	2,741,682
Accrued liabilities	1,496,381	303,164	1,799,545
Notes payable	11,550,000	2,000,000	13,550,000
Tax refunds payable	187,669	-	187,669
Other liabilities	718,123	-	718,123
Current portion of long-term liabilities:			
Bonds payable	3,840,000	1,479,118	5,319,118
Compensated absences	98,119	7,545	105,664
Noncurrent:			
Bonds payable, net of current portion	60,873,001	13,002,801	73,875,802
Compensated absences, net of current portion	1,864,271	143,350	2,007,621
Other post-employment benefits	47,947,315	549,981	48,497,296
Net pension liability	41,019,919	326,405	41,346,324
DEFERRED INFLOWS OF RESOURCES	<u>4,135,711</u>	<u>32,829</u>	<u>4,168,540</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	175,605,971	18,711,413	194,317,384
NET POSITION			
Net investment in capital assets	166,765,394	45,342,861	212,108,255
Restricted for:			
Grants and other statutory restrictions	8,980,970	-	8,980,970
Permanent funds:			
Nonexpendable	503,930	-	503,930
Expendable	2,536,696	-	2,536,696
Unrestricted	<u>(68,835,656)</u>	<u>11,112,772</u>	<u>(57,722,884)</u>
TOTAL NET ASSETS	\$ 109,951,334	\$ 56,455,633	\$ 166,406,967

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

TOWN OF FRANKLIN, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Governmental	Business-	
		Services	Grants and	Activities	Type	
			Contributions		Activities	Total
		Expenses				
Governmental Activities:						
General government	\$ 13,649,124	\$ 720,286	\$ 1,500,575	\$ (11,428,263)	\$ -	\$ (11,428,263)
Public safety	14,230,026	2,202,123	301,958	(11,725,945)	-	(11,725,945)
Education	90,834,432	3,791,294	41,176,795	(45,866,343)	-	(45,866,343)
Public works	5,367,481	164,029	269,796	(4,933,656)	-	(4,933,656)
Health and human services	1,480,333	155,817	204,845	(1,119,671)	-	(1,119,671)
Culture and recreation	1,678,984	507,572	83,989	(1,087,423)	-	(1,087,423)
Interest	2,960,279	-	-	(2,960,279)	-	(2,960,279)
Intergovernmental	4,827,096	-	-	(4,827,096)	-	(4,827,096)
Total Governmental Activities	135,027,755	7,541,121	43,537,958	(83,948,676)	-	(83,948,676)
Business-Type Activities:						
Sewer services	4,903,503	5,112,743	-	-	209,240	209,240
Water services	5,944,855	6,457,300	-	-	512,445	512,445
Sanitation services	1,844,783	1,861,194	-	-	16,411	16,411
Total Business-Type Activities	12,693,141	13,431,237	-	-	738,096	738,096
Total	\$ 147,720,896	\$ 20,972,358	\$ 43,537,958	(83,948,676)	738,096	(83,210,580)
General Revenues and transfers:						
Property taxes				67,386,879	-	67,386,879
Excises				6,169,886	-	6,169,886
Penalties, interest and other taxes				339,148	-	339,148
Grants and contributions not restricted to specific programs				4,463,882	-	4,463,882
Investment income				398,502	26,200	424,702
Miscellaneous				1,154,094	14,458	1,168,552
Transfers, net				(600,000)	(22,000)	(622,000)
Total general revenues				79,312,391	18,658	79,331,049
Change in Net Position				(4,636,285)	756,754	(3,879,531)
Net Position:						
Beginning of year				114,587,619	55,698,879	170,286,498
End of year				\$ 109,951,334	\$ 56,455,633	\$ 166,406,967

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

TOWN OF FRANKLIN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	General Fund	High School Construction Fund	Library Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 8,358,032	\$ 199,594	\$ 5,949,608	\$ 10,718,592	\$ 25,225,826
Investments	11,075,030	-	-	3,858,947	14,933,977
Receivables:					
Property taxes	1,313,050	-	-	-	1,313,050
Excises	687,012	-	-	-	687,012
User fees	469,412	-	-	-	469,412
Departmental and other	-	-	-	26,044	26,044
Due from other funds	40,000	-	-	-	40,000
TOTAL ASSETS	\$ 21,942,536	\$ 199,594	5,949,608	\$ 14,603,583	\$ 42,695,321
LIABILITIES					
Warrants and accounts payable	\$ 1,101,666	\$ -	314,606	\$ 459,190	\$ 1,875,462
Accrued liabilities	444,323	-	-	-	444,323
Notes payable	-	4,550,000	7,000,000	-	11,550,000
Tax refunds payable	187,669	-	-	-	187,669
Due to other funds	-	-	-	40,000	40,000
Other liabilities	718,124	-	-	-	718,124
TOTAL LIABILITIES	2,451,782	4,550,000	7,314,606	499,190	14,815,578
DEFERRED INFLOWS OF RESOURCES	2,349,252	-	-	-	2,349,252
FUND BALANCES					
Nonspendable	-	-	-	503,930	503,930
Restricted	145,615	-	-	13,019,047	13,164,662
Committed	5,483,614	-	-	1,443,234	6,926,848
Assigned	367,362	-	-	-	367,362
Unassigned	11,144,911	(4,350,406)	(1,364,998)	(861,818)	4,567,689
TOTAL FUND BALANCES	17,141,502	(4,350,406)	(1,364,998)	14,104,393	25,530,491
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 21,942,536	\$ 199,594	\$ 5,949,608	\$ 14,603,583	\$ 42,695,321

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, 2016

Total governmental fund balances	\$ 25,530,491
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	237,190,189
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,689,025
<ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(1,052,058)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, capital leases, landfill closure, accrued compensated absences and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(155,642,625)
<ul style="list-style-type: none">• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	<u>2,236,312</u>
Net position of governmental activities	<u><u>\$ 109,951,334</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, 2016

	General Fund	High School Construction Fund	Library Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 67,345,850	\$ -	\$ -	\$ -	\$ 67,345,850
Excises	6,039,024	-	-	-	6,039,024
Penalties, interest and other taxes	301,686	-	-	510	302,196
Special assessments	1,762	-	-	-	1,762
Charges for services	2,152,082	-	-	4,178,061	6,330,143
Licenses and permits	1,308,874	-	-	-	1,308,874
Intergovernmental	31,677,322	39,774	-	6,060,287	37,777,383
Fines and forfeitures	114,125	-	-	3,080	117,205
Contributions	-	-	-	378,338	378,338
Investment income	314,074	-	-	131,015	445,089
Miscellaneous	19,282	-	-	1,237,472	1,256,754
Total Revenues	109,274,081	39,774	-	11,988,763	121,302,618
Expenditures:					
Current:					
General government	9,214,616	-	-	2,094,828	11,309,444
Public safety	10,451,530	-	-	492,484	10,944,014
Education	59,252,449	-	-	7,551,040	66,803,489
Public works	4,424,187	-	-	189,756	4,613,943
Health and human services	619,220	-	-	223,585	842,805
Culture and recreation	1,121,784	-	-	60,670	1,182,454
Insurance and benefits	8,156,865	-	-	8,155	8,165,020
Debt service	7,003,781	-	-	-	7,003,781
Intergovernmental	4,827,096	-	-	-	4,827,096
Capital outlay	1,864,051	1,757,543	1,358,498	2,653,623	7,633,715
Total Expenditures	106,935,579	1,757,543	1,358,498	13,274,141	123,325,761
Excess (deficiency) of revenues over expenditures	2,338,502	(1,717,769)	(1,358,498)	(1,285,378)	(2,023,143)
Other Financing Sources (Uses):					
Proceeds of refunding debt	7,310,000	-	-	-	7,310,000
Payment to refunding escrow agent	(8,471,217)	-	-	-	(8,471,217)
Bond premium	1,312,903	-	-	-	1,312,903
Transfers in	422,700	164,000	-	1,402,868	1,989,568
Transfers out	(2,002,868)	-	-	(586,700)	(2,589,568)
Total Other Financing Sources (Uses)	(1,428,482)	164,000	-	816,168	(448,314)
Change in fund balance	910,020	(1,553,769)	(1,358,498)	(469,210)	(2,471,457)
Fund Balance, at Beginning of Year, as reclassified	16,231,482	(2,796,637)	(6,500)	14,573,603	28,001,948
Fund Balance, at End of Year	\$ 17,141,502	\$ (4,350,406)	\$ (1,364,998)	\$ 14,104,393	\$ 25,530,491

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, 2016

Net changes in fund balances - total governmental funds \$ (2,471,457)

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay purchases	8,065,785
Loss on disposition of assets	(718,434)
Depreciation	(7,259,445)
- 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.

	91,201
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- Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds.

	(825,933)
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- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:

Repayments of debt	4,554,250
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- In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

	(60,748)
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- Some expenses reported in the Statement of Activities, such as compensated absences and other post-employment benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

	<u>(6,011,504)</u>
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Change in net position of governmental activities \$ (4,636,285)

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, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Transfers In:				
Property taxes	\$ 67,006,414	\$ 67,006,414	\$ 67,006,414	\$ -
Motor vehicle excise	4,126,000	4,126,000	4,912,549	786,549
Other excise	955,000	955,000	1,126,475	171,475
Penalties, interest and other taxes	274,000	274,000	303,448	29,448
Charges for services	1,948,500	1,948,500	2,152,082	203,582
Licenses and permits	800,000	800,000	1,308,874	508,874
Intergovernmental	31,590,644	31,590,643	31,677,322	86,679
Fines and forfeitures	111,000	111,000	114,125	3,125
Investment income	112,000	112,000	86,619	(25,381)
Miscellaneous	4,000	4,000	19,282	15,282
Transfers in	<u>1,129,000</u>	<u>1,465,700</u>	<u>1,465,700</u>	<u>-</u>
Total Revenues and Transfers In	108,056,558	108,393,257	110,172,890	1,779,633
Expenditures and Transfers Out:				
General government	9,309,029	9,488,131	9,250,202	237,929
Public safety	10,336,746	10,346,620	9,917,984	428,636
Education	59,122,832	59,111,978	59,072,348	39,630
Public works	4,237,369	4,036,674	3,893,675	142,999
Health and human services	586,994	640,481	619,279	21,202
Culture and recreation	1,234,571	1,235,321	1,124,440	110,881
Debt service	7,136,563	7,136,563	7,003,781	132,782
Insurance and benefits	10,462,535	10,221,724	9,599,865	621,859
Capital outlay	-	2,391,856	2,363,091	28,765
Intergovernmental	5,129,919	5,129,919	4,827,096	302,823
Transfers out	<u>500,000</u>	<u>1,622,086</u>	<u>1,622,086</u>	<u>-</u>
Total Expenditures and Transfers Out	<u>108,056,558</u>	<u>111,361,353</u>	<u>109,293,847</u>	<u>2,067,506</u>
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	-	(2,968,096)	879,043	3,847,139
Other Financing Sources:				
Use of bond premium	-	-	151,686	151,686
Use of free cash and overlay surplus	<u>-</u>	<u>2,968,096</u>	<u>2,968,096</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,998,825</u>	<u>\$ 3,998,825</u>

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

TOWN OF FRANKLIN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Non-major Solid Waste Fund	Total
ASSETS				
Current:				
Cash and short-term investments	\$ 3,726,603	\$ 6,662,038	\$ 668,679	\$ 11,057,320
Receivables, net of allowance for uncollectibles:				
User fees	1,453,621	1,883,271	162,953	3,499,845
Betterments	20,091	-	-	20,091
Total current assets	5,200,315	8,545,309	831,632	14,577,256
Noncurrent:				
Receivables, net of allowance for uncollectibles:				
Betterments	171,816	-	-	171,816
Land and construction in progress	679,558	3,621,871	46,931	4,348,360
Other capital assets, net of accumulated depreciation	11,085,170	44,654,520	279,300	56,018,990
Total noncurrent assets	11,936,544	48,276,391	326,231	60,539,166
DEFERRED OUTFLOWS OF RESOURCES	14,065	36,559	-	50,624
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	17,150,924	56,858,259	1,157,863	75,167,046
LIABILITIES				
Current:				
Warrants and accounts payable	159,124	706,146	950	866,220
Accrued liabilities	46,987	256,177	-	303,164
Notes payable	-	2,000,000	-	2,000,000
Current portion of long-term liabilities:				
Bonds payable	300,696	1,178,422	-	1,479,118
Compensated absences	3,056	3,969	520	7,545
Total current liabilities	509,863	4,144,714	1,470	4,656,047
Noncurrent:				
Bonds payable, net of current portion	2,280,088	10,722,713	-	13,002,801
Compensated absences, net of current portion	58,058	75,414	9,878	143,350
Other post-employment benefits	202,548	347,433	-	549,981
Net pension liability	90,687	235,718	-	326,405
Total noncurrent liabilities	2,631,381	11,381,278	9,878	14,022,537
DEFERRED INFLOWS OF RESOURCES	9,121	23,708	-	32,829
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	3,150,365	15,549,700	11,348	18,711,413
NET POSITION				
Net investment in capital assets	9,183,944	35,832,686	326,231	45,342,861
Unrestricted	4,816,615	5,475,873	820,284	11,112,772
TOTAL NET POSITION	\$ 14,000,559	\$ 41,308,559	\$ 1,146,515	\$ 56,455,633

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, 2016

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Non-major Solid Waste Fund	Total
Operating Revenues:				
Charges for services	\$ 5,112,743	\$ 6,457,300	\$ 1,861,194	\$ 13,431,237
Total Operating Revenues	5,112,743	6,457,300	1,861,194	13,431,237
Operating Expenses:				
Personnel	1,060,225	1,675,149	144,875	2,880,249
Non-personnel	310,447	2,158,621	1,620,108	4,089,176
Depreciation	444,630	1,542,648	79,800	2,067,078
Intergovernmental	2,943,810	-	-	2,943,810
Total Operating Expenses	4,759,112	5,376,418	1,844,783	11,980,313
Operating Income	353,631	1,080,882	16,411	1,450,924
Nonoperating Revenues (Expenses):				
Interest income	10,379	13,300	2,521	26,200
Miscellaneous revenues	1,065	1,711	11,682	14,458
Interest expense	(144,391)	(568,437)	-	(712,828)
Total Nonoperating Revenues (Expenses)	(132,947)	(553,426)	14,203	(672,170)
Income Before Transfers	220,684	527,456	30,614	778,754
Transfers:				
Transfers out	(6,000)	(16,000)	-	(22,000)
Total Other Financing Sources (Uses)	(6,000)	(16,000)	-	(22,000)
Change in Net Position	214,684	511,456	30,614	756,754
Net Position at Beginning of Year	13,785,875	40,797,103	1,115,901	55,698,879
Net Position at End of Year	\$ 14,000,559	\$ 41,308,559	\$ 1,146,515	\$ 56,455,633

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, 2016

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Non-major Solid Waste Fund	Total
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 5,281,051	\$ 6,522,251	\$ 1,902,956	\$ 13,706,258
Payments to vendors	(3,180,444)	(1,690,905)	(1,770,649)	(6,641,998)
Payments to employees	(1,040,816)	(1,655,415)	(143,982)	(2,840,213)
Net Cash Provided By Operating Activities	1,059,791	3,175,931	(11,675)	4,224,047
<u>Cash Flows From Noncapital Financing Activities:</u>				
Miscellaneous revenues	1,064	1,711	11,683	14,458
Transfer out	(6,000)	(16,000)	-	(22,000)
Net Cash (Used For) Noncapital Financing Activities	(4,936)	(14,289)	11,683	(7,542)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition and construction of capital assets	(655,237)	(3,529,329)	-	(4,184,566)
Proceeds of bonds and notes	-	2,000,000	-	2,000,000
Principal payments on bonds	(298,196)	(1,337,091)	-	(1,635,287)
Interest expense	(105,086)	(471,065)	-	(576,151)
Net Cash (Used For) Capital and Related Financing Activities	(1,058,519)	(3,337,485)	-	(4,396,004)
<u>Cash Flows From Investing Activities:</u>				
Investment income	10,379	13,300	2,521	26,200
Net Change in Cash and Short-Term Investments	6,715	(162,543)	2,529	(153,299)
Cash and Short-Term Investments, Beginning of Year	3,719,888	6,824,581	666,150	11,210,619
Cash and Short-Term Investments, End of Year	\$ 3,726,603	\$ 6,662,038	\$ 668,679	\$ 11,057,320
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income	\$ 353,631	\$ 1,080,882	\$ 16,411	\$ 1,450,924
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	444,630	1,542,648	79,800	2,067,078
Changes in assets and liabilities:				
User fees receivable	168,308	64,950	41,762	275,020
Warrants and accounts payable	73,813	467,716	(150,541)	390,988
Net pension liability	1,157	3,005	-	4,162
Other liabilities	18,252	16,730	893	35,875
Net Cash Provided By Operating Activities	\$ 1,059,791	\$ 3,175,931	\$ (11,675)	\$ 4,224,047

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

TOWN OF FRANKLIN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 200,000	\$ 16,406	\$ 535,768
Investments	1,972,234	92,504	-
Departmental receivable	-	-	216,844
Other assets	-	-	1,337,586
	<hr/>	<hr/>	<hr/>
Total Assets	2,172,234	108,910	2,090,198
<u>LIABILITIES AND NET POSITION</u>			
Warrants payable	-	-	34,456
Other liabilities	-	-	2,055,742
	<hr/>	<hr/>	<hr/>
Total Liabilities	-	-	2,090,198
	<hr/>	<hr/>	<hr/>
<u>NET POSITION</u>			
Total net position held in trust	\$ <u>2,172,234</u>	\$ <u>108,910</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, 2016

	Other Post Employment Benefits Trust <u>Fund</u>	Private Purpose Trust Funds
Additions:		
Contributions	\$ -	\$ 13,881
Investment income	<u>93,220</u>	<u>1,075</u>
Total additions	93,220	14,956
Deductions:		
Scholarship payments	<u>-</u>	<u>14,900</u>
Total deductions	-	14,900
Other financing sources:		
Transfers in	<u>622,000</u>	<u>-</u>
Total other financing sources	<u>622,000</u>	<u>-</u>
Net increase	715,220	56
Net position:		
Beginning of year	<u>1,457,014</u>	<u>108,854</u>
End of year	<u>\$ 2,172,234</u>	<u>\$ 108,910</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 2016, 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 non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The Town reports the following major governmental funds:

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

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

The government reports the following major proprietary funds:

- Sewer Fund
- Water Fund

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

The *Private-Purpose Trust Fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

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 market 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 2016 tax levy reflected an excess capacity of \$35,822.

G. Capital Assets

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

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

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

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

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

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

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

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 109,274,081	\$ 106,935,579
Other financing sources/uses (GAAP Basis)	<u>9,045,603</u>	<u>10,474,085</u>
Subtotal (GAAP Basis)	118,319,684	117,409,664
Adjust tax revenue to accrual basis	(346,264)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(4,972,918)
Add end-of-year appropriation carryforwards to expenditures	-	4,237,710
Reverse effect of non-budgeted Gross up for refunding	(8,471,217)	(8,471,217)
Reverse effect of combining stabilization funds with general fund per GASB 54	(227,454)	22,086
Record use of bond premium	(151,686)	-
Reclass non-budgeted items	<u>1,049,827</u>	<u>1,068,522</u>
Budgetary Basis	<u>\$ 110,172,890</u>	<u>\$ 109,293,847</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2016:

School grants	\$ (200,427)
Town grants	(661,391)
High School construction fund	(4,350,406)
Library construction fund	<u>(1,364,998)</u>
	<u>\$ (6,577,222)</u>

The temporary deficits in these funds will be eliminated through future inter-governmental revenues and bond proceeds.

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, 2016, \$26,476,757 of the Town’s bank balance of \$40,228,852 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>6/30/2016 Balance</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	\$ 3,210	\$ 3,210	\$ -	\$ -	\$ -	\$ -
Federal agency securities	4,296	4,008	-	-	-	288
Corporate bonds	1,237	32	269	452	484	-
Certificates of deposits	5,302	-	-	-	-	5,302
Mutual funds	348	-	-	-	-	348
Corporate equities	634	-	-	-	-	634
State investment pool	1,972	-	-	-	-	1,972
Total investments	<u>\$ 16,999</u>	<u>\$ 7,250</u>	<u>\$ 269</u>	<u>\$ 452</u>	<u>\$ 484</u>	<u>\$ 8,544</u>

B. Custodial Credit Risk

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

As of June 30, 2016, 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. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows (in thousands):

Bristol County Savings Bank certificate of deposit	\$ 1,000
Dean Bank certificate of deposit	1,006
East Boston Savings Bank certificate of deposit	2,014
Federal Home Loan Mortgage	<u>1,901</u>
Total	<u>\$ 5,921</u>

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>6/30/2016 Balance</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Treasury notes	\$ 3,210	\$ -	\$ 1,700	\$ 1,510	\$ -
Federal agency securities	4,296	175	3,220	901	-
Corporate bonds	1,237	224	1,013	-	-
Certificates of deposit	<u>5,302</u>	<u>4,296</u>	<u>1,006</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,045</u>	<u>\$ 4,695</u>	<u>\$ 6,939</u>	<u>\$ 2,411</u>	<u>\$ -</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, 2016:

<u>Description</u>		Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	\$ 3,210	\$ -	\$ 3,210	\$ -
Federal agency securities	4,296	-	4,296	-
Corporate bonds	1,237	-	1,237	-
Equity securities:				
Corporate equities	634	634	-	-
Mutual funds	348	348	-	-
Investments measured at the net asset value (NAV):				
External investment pool	<u>1,972</u>			
Total	<u>\$ 11,697</u>			
<u>Description</u>		<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>
External investment pool		\$ 1,972	\$ -	Monthly
				<u>Redemption Notice Period</u>
				30 days

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent the tax collector may proceed to file a lien

against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2016 consist of the following:

Real Estate		
2016	\$ 475,830	
2015	5,913	
2014	2,338	
2013	1,714	
Prior	<u>2,668</u>	
		488,463
Personal Property		
2016	14,120	
2015	7,798	
2014	5,132	
2013	6,192	
Prior	<u>93,282</u>	
		126,524
Tax Liens		684,988
Deferred Taxes		10,270
Other		<u>2,805</u>
Total		<u>\$ 1,313,050</u>

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 228,813	\$ -
Excises	\$ 288,822	\$ -
User fees	\$ 140,823	\$ -
Sewer	\$ -	\$ 44,525
Water	\$ -	\$ 49,916
Trash	\$ -	\$ 23,175

7. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 145,178	\$ 101,195	\$ (12,035)	\$ 234,338
Machinery, equipment, and furnishings	10,606	1,065	(523)	11,148
Infrastructure	77,990	1,922	-	79,912
Total capital assets, being depreciated	233,774	104,182	(12,558)	325,398
Less accumulated depreciation for:				
Buildings and improvements	(61,964)	(4,863)	11,331	(55,496)
Machinery, equipment, and furnishings	(7,360)	(748)	513	(7,595)
Infrastructure	(45,788)	(1,648)	-	(47,436)
Total accumulated depreciation	(115,112)	(7,259)	11,844	(110,527)
Total capital assets, being depreciated, net	118,662	96,923	(714)	214,871
Capital assets, not being depreciated:				
Land	17,377	720	(5)	18,092
Construction in progress	101,063	2,533	(99,369)	4,227
Total capital assets, not being depreciated	118,440	3,253	(99,374)	22,319
Governmental activities capital assets, net	<u>\$ 237,102</u>	<u>\$ 100,176</u>	<u>\$ (100,088)</u>	<u>\$ 237,190</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 281	\$ -	\$ -	\$ 281
Machinery, equipment, and furnishings	1,590	258	(73)	1,775
Infrastructure	100,178	3,926	-	104,104
Total capital assets, being depreciated	102,049	4,184	(73)	106,160
Less accumulated depreciation for:				
Buildings and improvements	(122)	(6)	-	(128)
Machinery, equipment, and furnishings	(1,239)	(52)	73	(1,218)
Infrastructure	(46,786)	(2,009)	-	(48,795)
Total accumulated depreciation	(48,147)	(2,067)	73	(50,141)
Total capital assets, being depreciated, net	53,902	2,117	-	56,019
Capital assets, not being depreciated:				
Land	4,348	-	-	4,348
Total capital assets, not being depreciated	4,348	-	-	4,348
Business-type activities capital assets, net	<u>\$ 58,250</u>	<u>\$ 2,117</u>	<u>\$ -</u>	<u>\$ 60,367</u>

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

Governmental Activities:	
General government	\$ 140
Public safety	731
Education	3,863
Public works	2,070
Health and human services	155
Culture and recreation	<u>300</u>
Total depreciation expense - governmental activities	<u>\$ 7,259</u>
Business-Type Activities:	
Sewer	\$ 444
Water	1,543
Solid waste	<u>80</u>
Total depreciation expense - business-type activities	<u>\$ 2,067</u>

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2016:

	Entity-wide Basis	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Pension related:		
Differences between expected and actual experience	\$ 831,148	\$ 6,614
Net difference between projected and actual pension investment earnings	<u>5,530,902</u>	<u>44,010</u>
Total	<u>\$ 6,362,050</u>	<u>\$ 50,624</u>

9. Warrants and Accounts Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016, as permitted by law. Accounts payable represent additional 2016 expenditures paid after July 15, 2016.

10. Anticipation Notes Payable

The Town had the following bond anticipation notes outstanding at June 30, 2016:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/16
High School construction	2.00%	5/20/16	5/19/17	\$ 4,550,000
Library reconstruction	2.00%	5/20/16	5/19/17	7,000,000
Water infrastructure improvements	2.00%	5/20/16	5/19/17	1,100,000
Road improvements	2.00%	5/20/16	5/19/17	900,000
Total				<u>\$ 13,550,000</u>

The following summarizes activity in notes payable during fiscal year 2016:

	Balance Beginning of Year	New Issues	Rollover	Bonded	Balance End of Year
High School construction	\$ 3,000,000	\$ -	\$ (3,000,000)	\$ -	\$ -
Library reconstruction	250,000	-	(250,000)	-	-
High School construction	-	1,550,000	3,000,000	-	4,550,000
Library reconstruction	-	6,750,000	250,000	-	7,000,000
Water infrastructure improvements	-	1,100,000	-	-	1,100,000
Road improvements	-	900,000	-	-	900,000
Total	<u>\$ 3,250,000</u>	<u>\$ 10,300,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,550,000</u>

11. Long-Term Debt

A. General Obligation Bonds

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

	Original Issue	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/16
<u>Governmental Activities:</u>				
Outdoor recreational facilities	03/15/05	03/15/19	3.25 - 5.50	\$ 751,000
Outdoor recreational facilities	03/15/05	03/15/19	3.25 - 5.50	150,000
Keller-Sullivan School	03/15/05	03/15/25	3.25 - 5.50	3,334,001
General obligation (various uses)	03/01/09	03/01/19	2.00 - 5.00	2,880,000
School building repairs	05/02/12	06/30/22	2.00 - 4.00	1,200,000
General obligation refunding 2002	12/15/11	06/30/22	2.00 - 4.00	222,000
General obligation refunding 2003	12/15/11	06/30/22	2.00 - 4.00	2,689,000
General obligation refunding 2004	05/02/12	06/30/22	2.00 - 4.00	1,072,000
High School construction	08/15/13	06/15/38	4.13 - 5.00	41,970,000
General obligation refunding 2015	02/25/15	03/15/27	2.00 - 4.00	3,135,000
General obligation refunding 2016	06/15/16	03/01/28	4.00	7,310,000
Total Governmental Activities:				<u>\$ 64,713,001</u>

<u>Business-Type Activities:</u>	<u>Original Issue</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/16</u>
MWPAT Title V	09/28/01	08/01/19	4.50 - 5.75	\$ 6,784
Sewer refunding 2002	12/15/11	06/30/23	2.00 - 4.00	250,000
Sewer refunding 2004	05/02/12	06/30/22	2.00 - 4.00	396,000
Sewer refunding 2015	02/25/15	03/15/27	2.00 - 4.00	1,928,000
Water treatment facility DW-02-12	11/15/04	08/01/24	2.50 - 5.25	3,013,135
Water mains	03/15/05	03/15/25	4.26	1,368,000
Water treatment plant	04/01/07	04/01/17	3.45 - 4.125	15,000
Water improvements	04/01/07	04/01/17	3.45 - 4.125	225,000
Water refunding 2002	12/15/11	06/30/23	2.00 - 4.00	499,000
Water refunding 2004	05/02/12	06/30/22	2.00 - 4.00	594,000
Water line replacement	08/15/13	06/15/28	4.00 - 5.00	4,330,000
Water refunding 2015	02/25/15	03/15/27	2.00 - 4.00	1,857,000
Total Business-Type Activities:				<u>\$ 14,481,919</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,840,000	\$ 2,891,487	\$ 6,731,487
2018	3,876,000	2,834,564	6,710,564
2019	3,910,000	2,681,904	6,591,904
2020	3,597,000	2,187,598	5,784,598
2021	3,644,000	2,046,603	5,690,603
2022-2026	16,346,001	7,989,838	24,335,839
2027-2030	10,110,000	5,237,394	15,347,394
Thereafter	<u>19,390,000</u>	<u>3,639,531</u>	<u>23,029,531</u>
Total	<u>\$ 64,713,001</u>	<u>\$ 29,508,919</u>	<u>\$ 94,221,920</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, 2016.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,479,118	\$ 493,197	\$ 1,972,315
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	1,446,324	284,747	1,731,071
2022-2026	6,065,060	703,506	6,768,566
2027-2030	<u>1,170,000</u>	<u>64,800</u>	<u>1,234,800</u>
Total	<u>\$ 14,481,919</u>	<u>\$ 2,706,548</u>	<u>\$ 17,188,467</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/15	Additions	Reductions	Total Balance 6/30/16	Less Current Portion	Equals Long-Term Portion 6/30/16
<u>Governmental Activities</u>						
Bonds payable	\$ 69,267	\$ -	\$ (4,554)	\$ 64,713	\$ (3,840)	\$ 60,873
Other:						
Compensated absences	1,966	28	(32)	1,962	(98)	1,864
Other post-employment benefits	42,455	9,803	(4,311)	47,947	-	47,947
Net pension liability	39,909	1,111	-	41,020	-	41,020
Totals	<u>\$ 153,597</u>	<u>\$ 10,942</u>	<u>\$ (8,897)</u>	<u>\$ 155,642</u>	<u>\$ (3,938)</u>	<u>\$ 151,704</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 16,117	\$ -	\$ (1,635)	\$ 14,482	\$ (1,479)	\$ 13,003
Other:						
Compensated absences	141	12	(2)	151	(8)	143
Other post-employment benefits	523	78	(51)	550	-	550
Net pension liability	318	8	-	326	-	326
Totals	<u>\$ 17,099</u>	<u>\$ 98</u>	<u>\$ (1,688)</u>	<u>\$ 15,509</u>	<u>\$ (1,487)</u>	<u>\$ 14,022</u>

12. 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, 2016 is \$7,760,000.

Fiscal Year 2015

On February 25, 2015, the Town issued general obligation bonds in the amount of \$6,920,000 with interest rates ranging from 2.00% to 4.00% to advance refund \$7,185,000 of bonds with interest rates ranging from 3.75% to 5.00%. The bonds mature on March 15, 2017 through March 15, 2026 and are not callable. The general obligation bonds were issued at 1.871776% and, after paying issuance costs of \$74,100, the net proceeds were \$7,662,987. 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 \$486,020, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$444,162.

Defeased debt still outstanding at June 30, 2016 is \$1,885,000.

13. Deferred Inflows of Resources

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

The following is a summary of deferred inflow of resources balances as of June 30, 2016:

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>
	<u>Governmental</u>	<u>Business-type</u>	<u>Governmental Funds</u>
	<u>Activities</u>	<u>Activities</u>	<u>General Fund</u>
Unavailable revenues	\$ -	\$ -	\$ 2,339,279
Taxes collected in advance	9,973	-	9,973
Pension related:			
Changes in assumptions	3,457,032	27,508	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	668,706	5,321	-
Total	<u>\$ 4,135,711</u>	<u>\$ 32,829</u>	<u>\$ 2,349,252</u>

14. Restricted Net Position

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

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

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, 2016:

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 pre-paid 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, 2016:

	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	145,615	-	-	-	145,615
Special revenue funds:					
School revolving funds	-	-	-	3,717,975	3,717,975
School circuit breaker	-	-	-	1,893,457	1,893,457
School choice	-	-	-	1,216,749	1,216,749
School grants and other funds	-	-	-	135,097	135,097
Town revolving funds	-	-	-	548,093	548,093
Town grants and other funds	-	-	-	823,280	823,280
Receipts reserved	-	-	-	646,319	646,319
Capital projects funds:					
Senior center construction	-	-	-	1,118,158	1,118,158
Other bonded projects	-	-	-	383,223	383,223
Expendable trust funds:					
Affordable housing	-	-	-	875,897	875,897
Open space acquisition	-	-	-	1,085,668	1,085,668
Other trust funds	-	-	-	575,131	575,131
Total Restricted	145,615	-	-	13,019,047	13,164,662
Committed					
Reserve for continuing resolutions	3,870,348	-	-	-	3,870,348
Capital improvement stabilization funds	1,613,266	-	-	-	1,613,266
Expendable insurance reserves	-	-	-	1,443,234	1,443,234
Total Committed	5,483,614	-	-	1,443,234	6,926,848
Assigned					
Budgetary encumbrances	367,362	-	-	-	367,362
Total Assigned	367,362	-	-	-	367,362
Unassigned					
General fund	4,697,462	-	-	-	4,697,462
General stabilization fund	5,104,493	-	-	-	5,104,493
Budget stabilization fund	1,342,956	-	-	-	1,342,956
Special revenue funds:					
School grants	-	-	-	(200,427)	(200,427)
Town grants	-	-	-	(661,391)	(661,391)
Major capital project funds					
High school construction fund	-	(4,350,406)	-	-	(4,350,406)
Library construction fund	-	-	(1,364,998)	-	(1,364,998)
Total Unassigned	11,144,911	(4,350,406)	(1,364,998)	(861,818)	4,567,689
Total Fund Balance	\$ 17,141,502	\$ (4,350,406)	\$ (1,364,998)	\$ 14,104,393	\$ 25,530,491

16. Interfund Transfers

The government reports interfund transfers between many of its funds. The sum of all transfers presented in the table below agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2016:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 422,700	\$ 2,002,868
High school construction fund	164,000	-
Nonmajor Funds:		
Special revenue funds	2,868	499,000
Capital project funds	1,400,000	-
Expendable trust funds	-	87,700
Subtotal Nonmajor Funds	<u>1,402,868</u>	<u>586,700</u>
Total Governmental Funds	1,989,568	2,589,568
<u>Business-Type Funds</u>		
Sewer fund	-	6,000
Water fund	-	16,000
Subtotal Business-type funds	<u>-</u>	<u>22,000</u>
<u>Fiduciary Funds</u>		
Other post-employment benefits trust	<u>622,000</u>	<u>-</u>
Subtotal Fiduciary Funds	<u>622,000</u>	<u>-</u>
Grand Total	<u>\$ 2,611,568</u>	<u>\$ 2,611,568</u>

17. 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	\$ 11,144,911
Stabilization fund	(6,447,449)
Tax refund estimate	<u>187,669</u>
Statutory (UMAS) Balance	<u>\$ 4,885,131</u>

18. Subsequent Events

The Town entered into a purchase and sale agreement to sell land with building and improvements located along the westerly side of Pond Street to Baystone Franklin, LLC for \$1,560,000

19. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

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

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

20. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

The Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a

pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2015, the actuarial valuation date, approximately 568 retirees and 978 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 2016 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, 2016, 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, 2015.

Normal Cost	\$ 4,425,239
Amortization of unfunded actuarially accrued liability	<u>3,522,201</u>
Annual Required Contribution (ARC)	7,947,440
Interest on net OPEB obligation	1,934,047
Adjustment to ARC	<u>(1,534,482)</u>
Annual OPEB cost	8,347,005
Expected benefit payments (pay as you go)	(2,206,531)
Contributions to OPEB Trust	<u>(622,000)</u>
Increase in net OPEB obligation	5,518,474
Net OPEB obligation - beginning of year	<u>42,978,822</u>
Net OPEB obligation - end of year	<u><u>\$ 48,497,296</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>
2016	\$ 8,347,005	34%	\$ 48,497,296
2015	\$ 7,888,765	34%	\$ 42,978,822
2014	\$ 7,793,356	30%	\$ 37,735,879

The Town's net OPEB obligation as of June 30, 2016 is recorded as a long-term liability on the Statement of Net Position.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 93,975,598
Actuarial value of plan assets	<u>1,455,552</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 92,520,046</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>1.5%</u></u>
Covered payroll (active plan members)	<u><u>\$ 57,381,408</u></u>
UAAL as a percentage of covered payroll	<u><u>161.2%</u></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, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was \$1,455,552. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 6.0% which decreases to a 4.5% long-term rate for all healthcare benefits after four years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

G. Actuarial Methods and Assumptions

In April 2015, the Town voted to accept the provisions of M.G.L. Chapter 32B, Section 20 to establish an Other Post-Employment Benefits Liability Trust Fund (OPEB Trust) to being accumulating assets to reduce the unfunded portion of its actuarially accrued OPEB liability.

As of June 30, 2016 total assets in the OPEB Trust were \$2,172,234. OPEB Trust assets and activity are reported in the Fiduciary Funds financial statement on pages 24-25 of this report.

21. 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 publically 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 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

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, 2016 was \$3,947,535, 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, 2016, the Town reported a liability of \$41,346,324 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, 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, 2015, the Town's proportion was 7.611443%.

For the year ended June 30, 2016, the Town recognized pension expense of \$4,347,868. 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	\$ 837,762	\$ -
Changes of assumptions	-	3,484,540
Net difference between projected and actual earnings on pension plan investments	5,574,912	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>674,027</u>
Total	<u>\$ 6,412,674</u>	<u>\$ 4,158,567</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:

2017	\$ 625,296
2018	625,296
2019	625,296
2020	<u>378,219</u>
Total	<u>\$ 2,254,107</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%	9.4%
International equities	17.5%	9.7%
Fixed income	19.0%	3.4%
Real estate	9.0%	7.7%
Private equity	8.5%	13.6%
Hedge funds	9.0%	7.9%
Real assets	5.0%	7.9%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2015 was 8.00%. 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 8.00%, 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 (7.00%) or 1 percentage-point higher (9.00%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
June 30. 2016	\$ 51,853,612	\$ 41,346,324	\$ 32,378,062

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.

22. 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>Hire 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, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. 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 per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- 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, 2015 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%	6.90%
Core fixed income	13.0%	2.40%
Private equity	10.0%	8.50%
Real estate	10.0%	6.50%
Value added fixed income	10.0%	5.80%
Hedge funds	9.0%	5.80%
Portfolio completion strategies	4.0%	5.50%
Timber/natural resources	4.0%	6.60%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. 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>Fiscal Year Ended</u>	<u>1% Decrease to 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase to 8.50%</u>
June 30, 2015	\$ 25,449,000	\$ 20,489,643	\$ 16,221,000

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 2015 (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 \$121,095,209 and \$9,821,899 respectively, based on a proportionate share of 0.591007%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

23. Beginning Net Position Reclassification

The beginning (July 1, 2015) net position of the Town has been reclassified as follows:

	Fund Equity 6/30/15 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/15 (as restated)
Nonmajor governmental funds	\$ 14,567,103	\$ 6,500	\$ 14,573,603
Library construction fund	<u>-</u>	<u>(6,500)</u>	<u>(6,500)</u>
Total	<u>\$ 14,567,103</u>	<u>\$ -</u>	<u>\$ 14,567,103</u>

24. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

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

June 30, 2016

(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>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
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
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016
(Unaudited)

Norfolk County Retirement System					
<u>Fiscal Year</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, 2016	7.611443%	\$41,346,324	\$ 20,361,675	203.06%	58.60%
June 30, 2015	7.756292%	\$40,226,086	\$ 19,038,422	211.29%	60.10%

Massachusetts Teachers' Retirement System							
<u>Fiscal Year</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, 2016	0.591007%	\$ -	\$ 121,095,209	\$ 121,095,209	\$ 37,463,272	-	55.38%
June 30, 2015	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
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016
(Unaudited)**

Norfolk County Retirement System					
<u>Fiscal Year</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, 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.