

**TOWN OF  
FRAMINGHAM, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2004**

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Framingham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, Massachusetts, as of and for the year ended June 30, 2004 (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2003), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Framingham's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, as of June 30, 2004 (except the Framingham Contributory Retirement System which is as of December 31, 2003), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:

Nashua, NH • Greenfield, MA • Ellsworth, ME

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing in the back of this report, are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2004 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 provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Melanson Heath + Company P.C.*

Andover, Massachusetts  
November 22, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Framingham, we offer readers of the Town of Framingham's financial statements this narrative overview and analysis of the financial activities of the Town of Framingham for the fiscal year ended June 30, 2004. All amounts in the Management's Discussion and Analysis, unless otherwise indicated, are expressed in thousands of dollars.

### A. FINANCIAL HIGHLIGHTS

- The assets of the Town of Framingham exceeded its liabilities at the close of the most recent fiscal year by \$ 114,874 (net assets). Of this amount, \$ 38,186 constitutes unrestricted net assets some of which are available for use as of June 30, 2004 and others, though measurable, will not be available until subsequent periods.
- As of the close of the fiscal year, the government's total net assets increased by \$ 10,210.
- As of the close of the current fiscal year, the Town of Framingham's governmental funds reported combined ending fund balance deficit of \$ (12,166), a decrease of \$ 12,857 in comparison with the prior year.
- At the end of the current fiscal year, unreserved/undesignated fund balance for the general fund was \$ 4,975, or 2.9% of total general fund expenditures. Management has established an additional \$ 655 as a general fund designated fund balance.
- The Town of Framingham's total debt (bonds and bond anticipation notes) was \$ 116,760, an increase of \$ 6,902 during the current fiscal year. The key factor in this increase was the bond anticipation notes issued to fund the high school renovations.

### B. OVERVIEW OF THE FINANCIAL STATEMENTS

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

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town of Framingham's finances in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the Town of Framingham 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 government activities of the Town of Framingham include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities of the Town of Framingham include Water, Sewer and Arena 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. The Town of Framingham, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Framingham 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.

The Town of Framingham maintains in excess of 100 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the High School Renovation fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The Town of Framingham adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The Town of Framingham maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Framingham uses enterprise funds to account for its Water, Sewer and Arena operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town of Framingham's various functions. The Town of Framingham uses internal service funds to account for its self-insured employee health program. Because this service predominantly benefits governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Arena operations, which are considered to be major funds of the Town of Framingham.

**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 of Framingham's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the 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 concerning the Town of Framingham's progress in funding its obligation to provide pension benefits to its employees.

### **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
	Current and other assets	\$ 58,965	\$ 62,959	\$ 18,299	\$ 16,967	\$ 77,264
Capital assets	<u>131,833</u>	<u>116,043</u>	<u>41,339</u>	<u>38,407</u>	<u>173,172</u>	<u>154,450</u>
Total assets	190,798	179,002	59,638	55,374	250,436	234,376
Long-term liabilities outstanding	49,499	53,594	8,024	4,224	57,523	57,818
Other liabilities	<u>74,569</u>	<u>68,675</u>	<u>3,470</u>	<u>3,219</u>	<u>78,039</u>	<u>71,894</u>
Total liabilities	124,068	122,269	11,494	7,443	135,562	129,712
Net assets:						
Invested in capital assets, net of related debt	39,372	37,584	34,403	34,547	73,775	72,131
Restricted	2,913	1,911	-	-	2,913	1,911
Unrestricted	<u>24,445</u>	<u>17,238</u>	<u>13,741</u>	<u>13,384</u>	<u>38,186</u>	<u>30,622</u>
Total net assets	\$ <u>66,730</u>	\$ <u>56,733</u>	\$ <u>48,144</u>	\$ <u>47,931</u>	\$ <u>114,874</u>	\$ <u>104,664</u>

### CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
	Revenues:					
Program revenues:						
Charges for services	\$ 9,850	\$ 9,567	\$ 21,383	\$ 20,306	\$ 31,233	\$ 29,873
Operating grants and contributions	41,752	49,241	-	-	41,752	49,241
Capital grants and contributions	7,132	5,406	-	-	7,132	5,406
General revenues:						
Property taxes	117,966	110,133	-	-	117,966	110,133
Excises	9,014	8,334	-	-	9,014	8,334
Grants and contributions not restricted to specific programs	11,404	11,285	-	-	11,404	11,285
Other	<u>3,862</u>	<u>4,430</u>	<u>94</u>	<u>99</u>	<u>3,956</u>	<u>4,529</u>
Total revenues	200,980	198,396	21,477	20,405	222,457	218,801
Expenses:						
General government	7,980	8,947	-	-	7,980	8,947
Public safety	22,024	22,445	-	-	22,024	22,445
Education	105,005	103,760	-	-	105,005	103,760
Public works	9,778	9,651	-	-	9,778	9,651
Human services	991	1,056	-	-	991	1,056
Culture and recreation	4,378	4,843	-	-	4,378	4,843
Employee benefits	35,148	39,736	-	-	35,148	39,736
Interest	3,906	3,058	-	-	3,906	3,058
Intergovernmental	3,319	3,559	-	-	3,319	3,559
Water	-	-	8,599	7,525	8,599	7,525
Sewer	-	-	10,767	11,005	10,767	11,005
Nonmajor	-	-	<u>352</u>	<u>749</u>	<u>352</u>	<u>749</u>
Total expenses	<u>192,529</u>	<u>197,055</u>	<u>19,718</u>	<u>19,279</u>	<u>212,247</u>	<u>216,334</u>
Increase in net assets before transfers	8,451	1,341	1,759	1,126	10,210	2,467
Transfers	<u>1,546</u>	<u>(122)</u>	<u>(1,546)</u>	<u>122</u>	-	-
Increase in net assets	9,997	1,219	213	1,248	10,210	2,467
Net assets - beginning of year (as restated)	<u>56,733</u>	<u>55,514</u>	<u>47,931</u>	<u>46,683</u>	<u>104,664</u>	<u>102,197</u>
Net assets - end of year	\$ <u>66,730</u>	\$ <u>56,733</u>	\$ <u>48,144</u>	\$ <u>47,931</u>	\$ <u>114,874</u>	\$ <u>104,664</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Framingham, assets exceeded liabilities by \$ 114,874 at the close of the most recent fiscal year.

The largest portion of the Town of Framingham's net assets (64%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town of Framingham uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Framingham's investment in its 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 the Town of Framingham's net assets (3%) represents resources that are subject to external restrictions on how they may be used (e.g., grants and trust funds). The remaining balance of unrestricted net assets is \$ 38,186, which includes amounts that are available for use as of June 30, 2004, and other amounts, though measurable, that will not be available until subsequent periods (e.g., unrestricted fund balances subject to appropriation, taxes and charges billed but not yet collected).

At the end of the current fiscal year, the Town of Framingham is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Governmental activities.** Governmental activities for the year resulted in an increase in net assets of \$ 9,997. Key elements of this increase are as follows:

General fund expenditures and transfers out	
in excess of revenues and transfers in	\$ ( 913)
Special revenue fund expenditures over revenues	1,833
Grants and contributions used for capital assets	7,132
Trust fund revenues over expenditures	60
Internal service fund revenues exceeding expenditures	856
Debt service principal paydowns in excess of depreciation	1,520
Other	( 491)
Total	\$ <u>9,997</u>

**Business-type activities.** Business-type activities for the year resulted in an increase in net assets of \$ 213. Key elements of this change are as follows:

Water Fund	\$ (498)
Sewer Fund	638
Nonmajor Fund	<u>73</u>
Total	\$ <u>213</u>

## **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the Town of Framingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the Town of Framingham's governmental funds reported combined ending fund balance deficit of \$ (12,166), a decrease of \$ 12,857 in comparison with the prior year. This decrease is primarily a function of short-term financing of the Framingham High School Renovation Project because project expenditures are recorded but bond anticipation note proceeds are not recognized as revenue to offset the expenditures. The negative impact of the Project on fund balance will be reversed in a future period when short-term debt is converted to long-term financing. A portion of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period (\$ 1,825), and (2) to be used as a funding source for the subsequent budget (\$ 4,259).

The general fund is the chief operating fund of the Town of Framingham. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$ 4,975, while total fund balance was \$ 11,015. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 2.9% of total general fund expenditures, while total fund balance represents 6.4% of that same amount. Management has established \$ 655 of the general fund balance to pay the debt services on the current notes payable.

The fund balance of the Town of Framingham's general fund decreased by \$ (913) during the current fiscal year. Key factors in this change are as follows:

- Appropriated use of free cash and overly surplus as a budgetary funding source for the fiscal year 2004 operating budget, net of other financing uses (\$ 4,090).
- Funding of Teachers Pay Deferral as Authorized by Massachusetts Department of Revenue of approximately \$ 219.
- Revenue surplus of \$ 615
- Appropriation turnbacks as of \$ 1,995.
- Excess tax revenue collections of \$ 547.

**Proprietary funds.** The Town of Framingham's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 13,740. The total growth in net assets was \$ 213. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town of Framingham's business-type activities.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 200 due to an increase in legal expenses funded by overlay surplus.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The Town of Framingham's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$ 173,172 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways and bridges.

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

- Framingham High School construction is currently in phase two of three phases and projected to be completed in August, 2005. Total architectural design and construction costs are estimated at \$ 54,000. This project is being financed through the issuance of debt that was excluded from the limits of Proposition 2½ by voter referendum. The project has been approved for 90% reimbursement from the Commonwealth of Massachusetts under the guidelines for school building projects in districts with approved Racial Balance plans. As of June 30, the Town has issued bond anticipation notes for this project totaling \$ 51,998.
- In October 2003, Town Meeting authorized \$ 1.8 in borrowing to purchase an existing building and convert it into a Senior Center. These funds combined with an additional \$ 1.8 in donations were used to purchase land and building in July 2004. The Senior Center is projected to open in the summer of 2005.
- Substantial progress was made on the water project called Doeskin Water Betterment. An additional \$ 1.7 was expended in the construction of the water tank and construction of water mains. Service connections were run to the properties of the abutters during the spring of 2004. The project is scheduled to be completed the Spring of 2005.

- As part of the School Committee's plan to increase operating efficiency and reduce fuel consumption at various School property's, the Town replaced boilers in the Walsh and Fullers Schools for a cost of \$ 957.
- During fiscal 2004, the Department of Public Works continued its policy on repairing or replacing water mains. Along with continuing other projects, the Town started phase 1 of replacing the water and sewer mains under Franklin Street. The appropriation for phase 1 was \$ 2,436. Phase 2 of the project was approved at the annual town meeting which added an additional \$ 1,420 of funding. Portions of the funding for this project was received from the MWRA's local pipeline assistance program loans which provide interest free loans to be paid over a ten year term.

The following is a summary of the Town's Capital Assets for the current and prior fiscal years:

**CAPITAL ASSETS**  
(net of depreciation)  
June 30, 2004 and 2003

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 17,273	\$ 17,256	\$ 640	\$ 640	\$ 17,913	\$ 17,896
Buildings and improvements	69,509	68,689	1,496	1,401	71,005	70,090
Machinery and equipment	2,784	2,075	659	522	3,443	2,597
Vehicles	3,314	3,215	693	587	4,007	3,802
Infrastructure	-	-	36,640	33,758	36,640	33,758
Construction in progress	<u>38,953</u>	<u>24,808</u>	<u>1,211</u>	<u>1,499</u>	<u>40,164</u>	<u>26,307</u>
Total	\$ <u>131,833</u>	\$ <u>116,043</u>	\$ <u>41,339</u>	\$ <u>38,407</u>	\$ <u>173,172</u>	\$ <u>154,450</u>

Additional information on the Town of Framingham's capital assets can be found in the footnotes to the financial statements.

**Long-term and short-term debt.** At the end of the current fiscal year, the Town of Framingham had total bonded debt and anticipation notes outstanding of \$ 116,760, all of which was debt backed by the full faith and credit of the government.

**OUTSTANDING DEBT**  
General Obligation Bonds and Anticipation Notes  
June 30, 2004 and 2003

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 54,692	\$ 58,486	\$ 8,706	\$ 4,662	\$ 63,398	\$ 63,148
Bond anticipation notes	<u>52,036</u>	<u>44,512</u>	<u>1,327</u>	<u>2,199</u>	<u>53,363</u>	<u>46,711</u>
Total	\$ <u>106,728</u>	\$ <u>102,998</u>	\$ <u>10,033</u>	\$ <u>6,861</u>	\$ <u>116,761</u>	\$ <u>109,859</u>

The Town of Framingham maintains an "Aa3" rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town of Framingham is \$ 410,911, which is significantly in excess of the Town of Framingham's outstanding general obligation debt.

Additional information on the Town of Framingham's long-term debt can be found in the footnotes to the financial statements.

#### **G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The unadjusted unemployment rate for the Town of Framingham is currently 3.8% (annual), which is a decrease from a rate of 4.2% a year ago. This compares to the State's unemployment rate of 5.1% and the national rate of 5.5%.
- Inflationary trends in the region compare favorably to national indices.
- The above factors were considered in preparing the Town of Framingham's budget for the 2004 fiscal year.
- During the current fiscal year, unreserved fund balance in the general fund increased to \$ 4,975. In addition, the Town of Framingham has appropriated \$ 3,559 of "free cash" and "overlay surplus" of which \$ 2,822 will be used to finance the FY05 general fund operating budget and \$ 737 will fund capital projects. The \$ 4,015 of "free cash" certified by the Massachusetts Department of Revenue as of July 1, 2004 is available, subject to appropriation, to finance FY05 and FY 06 expenditures.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Framingham'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:

Town Accountant  
Town of Framingham  
Memorial Building  
150 Concord Street  
Framingham, Massachusetts 01702

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 48,673,334	\$ 10,502,873	\$ 59,176,207
Receivables, net of allowance for uncollectibles:			
Property taxes	2,089,720	-	2,089,720
Motor vehicle excise	918,625	-	918,625
User fees	208,761	7,240,126	7,448,887
Departmental and other	108,676	-	108,676
Intergovernmental	4,157,319	327,600	4,484,919
Other assets	59,316	22,910	82,226
Noncurrent:			
Receivables, net of allowance for uncollectibles			
Property taxes	2,226,547	-	2,226,547
Departmental and other	217,751	-	217,751
Other assets	304,183	206,188	510,371
Land and construction in progress	56,225,920	1,850,636	58,076,556
Other capital assets, net of accumulated depreciation	<u>75,607,490</u>	<u>39,488,136</u>	<u>115,095,626</u>
<b>TOTAL ASSETS</b>	<b>190,797,642</b>	<b>59,638,469</b>	<b>250,436,111</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	1,969,800	887,152	2,856,952
Accounts payable	909,715	180,442	1,090,157
Accrued liabilities	10,334,924	127,286	10,462,210
Tax refunds payable	1,316,500	-	1,316,500
Notes payable	52,036,400	1,326,600	53,363,000
Other liabilities	64,476	-	64,476
Current portion of long-term liabilities:			
Bonds payable	5,826,620	829,204	6,655,824
Compensated absences	1,743,864	103,243	1,847,107
Other liabilities	-	16,208	16,208
Unamortized premium	366,274	-	366,274
Noncurrent:			
Bonds payable	48,864,990	7,876,533	56,741,523
Compensated absences	634,024	2,107	636,131
Other liabilities	-	145,871	145,871
<b>TOTAL LIABILITIES</b>	<b>124,067,587</b>	<b>11,494,646</b>	<b>135,562,233</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	39,371,544	34,403,468	73,775,012
Restricted for:			
Grants and other statutory restrictions	2,448,145	-	2,448,145
Permanent funds	464,790	-	464,790
Unrestricted	<u>24,445,576</u>	<u>13,740,355</u>	<u>38,185,931</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>66,730,055</u></b>	<b>\$ <u>48,143,823</u></b>	<b>\$ <u>114,873,878</u></b>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Activities

Fiscal Year Ended June 30, 2004

	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<b>Governmental Activities:</b>				
General government	\$ 7,979,997	\$ 714,712	\$ (4,984,308)	\$ (4,984,308)
Public safety	22,024,174	698,734	(17,729,175)	(17,729,175)
Education	105,005,141	33,159,279	(65,408,207)	(65,408,207)
Public works	9,777,703	221,000	(7,028,353)	(7,028,353)
Health and human services	991,108	777,620	1,450,052	1,450,052
Culture and recreation	4,378,089	469,093	(3,433,868)	(3,433,868)
Employee benefits	35,147,902	5,711,364	(29,436,538)	(29,436,538)
Interest	3,905,781	-	(3,905,781)	(3,905,781)
Intergovernmental	3,319,346	-	(3,319,346)	(3,319,346)
Total Governmental Activities	192,529,241	41,751,802	(133,795,524)	(133,795,524)
<b>Business-Type Activities:</b>				
Water services	8,598,539	-	333,347	333,347
Sewer services	10,767,185	-	1,268,930	1,268,930
Non major services	352,390	-	62,902	62,902
Total Business-type Activities	19,718,114	-	1,665,179	1,665,179
Total Primary Government	\$ 212,247,355	\$ 41,751,802	(133,795,524)	(132,130,345)
<b>General Revenues and transfers:</b>				
Property taxes			117,965,663	117,965,663
Motor vehicle and other excise taxes			9,013,774	9,013,774
Penalties and interest on taxes			1,110,033	1,110,033
Grants and contributions not restricted to specific programs			11,403,765	11,403,765
Investment income			1,029,224	1,123,656
Miscellaneous			1,724,090	1,724,090
Transfers, net			(1,546,282)	-
Total general revenues and transfers			143,792,831	142,340,981
Change in Net Assets			9,997,307	10,210,636
<b>Net Assets:</b>				
Beginning of Year, as restated			56,732,748	104,663,242
End of Year			\$ 66,730,055	\$ 114,873,878

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Balance Sheet

June 30, 2004

	<u>General</u>	<u>High School Renovation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 18,309,916	\$ 14,411,812	\$ 14,238,464	\$ 46,960,192
Receivables:				
Property taxes	5,650,153	-	-	5,650,153
Motor vehicle excise	1,536,250	-	-	1,536,250
User fees	-	-	208,761	208,761
Departmental and other	-	-	326,427	326,427
Intergovernmental	76,417	-	4,080,902	4,157,319
Other assets	18,980	-	6,538	25,518
<b>TOTAL ASSETS</b>	<u>\$ 25,591,716</u>	<u>\$ 14,411,812</u>	<u>\$ 18,861,092</u>	<u>\$ 58,864,620</u>

**LIABILITIES AND FUND BALANCES**

Liabilities:				
Warrants payable	\$ 1,414,779	-	\$ 554,594	\$ 1,969,373
Accounts payable	7,666	893,358	8,692	909,716
Accrued liabilities	5,237,429	-	419,580	5,657,009
Tax refunds payable	1,316,500	-	-	1,316,500
Deferred revenues	6,535,484	-	2,541,624	9,077,108
Other liabilities	64,476	-	-	64,476
Notes payable	-	51,998,000	38,400	52,036,400
<b>TOTAL LIABILITIES</b>	<u>14,576,334</u>	<u>52,891,358</u>	<u>3,562,890</u>	<u>71,030,582</u>
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	1,825,023	-	-	1,825,023
Expenditures	3,559,854	-	698,958	4,258,812
Perpetual funds	-	-	464,790	464,790
Unreserved:				
Designated	655,384	-	-	655,384
Undesignated, reported in:				
General fund	4,975,121	-	-	4,975,121
Special revenue funds	-	-	11,175,569	11,175,569
Capital projects funds	-	(38,479,546)	2,958,885	(35,520,661)
<b>TOTAL FUND BALANCES</b>	<u>11,015,382</u>	<u>(38,479,546)</u>	<u>15,298,202</u>	<u>(12,165,962)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 25,591,716</u>	<u>\$ 14,411,812</u>	<u>\$ 18,861,092</u>	<u>\$ 58,864,620</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Fiscal Year Ended June 30, 2004

	General	High School Renovation	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property taxes	\$ 119,422,075	-	-	\$ 119,422,075
Excises	7,473,608	-	-	7,473,608
Penalties, interest and other taxes	1,156,547	-	-	1,156,547
Charges for services	1,548,393	-	5,999,533	7,547,926
Intergovernmental	37,450,895	-	13,093,925	50,544,820
Licenses and permits	1,615,885	-	-	1,615,885
Fines and forfeitures	605,196	-	-	605,196
Interest earnings	676,689	-	264,287	940,976
Contributions	-	-	1,868,377	1,868,377
Miscellaneous	594,511	-	543,965	1,138,476
<b>Total Revenues</b>	<u>170,543,799</u>	<u>-</u>	<u>21,770,087</u>	<u>192,313,886</u>
<b>Expenditures:</b>				
Current:				
General government	5,903,926	32,751	1,911,322	7,847,999
Public safety	19,276,565	-	2,086,709	21,363,274
Education	91,860,682	-	12,080,735	103,941,417
Public works	8,384,337	-	1,152,464	9,536,801
Health and human services	867,604	-	119,308	986,912
Culture and recreation	3,441,455	-	913,155	4,354,610
Employee benefits	29,630,893	-	-	29,630,893
Debt service	9,828,432	-	-	9,828,432
Intergovernmental	3,319,346	-	-	3,319,346
Capital outlay	-	15,612,727	1,996,262	17,608,989
<b>Total Expenditures</b>	<u>172,513,240</u>	<u>15,645,478</u>	<u>20,259,955</u>	<u>208,418,673</u>
Excess (deficiency) of revenues over expenditures	(1,969,441)	(15,645,478)	1,510,132	(16,104,787)
<b>Other Financing Sources (Uses):</b>				
Proceeds of bonds	-	-	1,701,680	1,701,680
Proceeds of refunding debt	4,982,581	-	-	4,982,581
Payment to escrow agent	(4,982,581)	-	-	(4,982,581)
Operating transfers in	1,948,226	-	804,051	2,752,277
Operating transfers out	(891,330)	-	(314,665)	(1,205,995)
<b>Total Other Financing Sources (Uses)</b>	<u>1,056,896</u>	<u>-</u>	<u>2,191,066</u>	<u>3,247,962</u>
Change in fund balance	(912,545)	(15,645,478)	3,701,198	(12,856,825)
Fund Balance, July 1, 2003	11,927,927	(22,834,068)	11,597,004	690,863
Fund Balance, June 30, 2004	<u>\$ 11,015,382</u>	<u>\$ (38,479,546)</u>	<u>\$ 15,298,202</u>	<u>\$ (12,165,962)</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2004

<b>Total governmental fund balances</b>	\$ ( 12,165,962)
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	131,833,410
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	7,463,576
<ul style="list-style-type: none"><li>• Internal services funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.</li></ul>	( 2,103,728)
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	( 861,469)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>( 57,435,772)</u>
<b>Net assets of governmental activities</b>	<b>\$ <u>66,730,055</u></b>

See notes to financial statements.

TOWN OF FRAMINGHAM, 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, 2004

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$(12,856,825)

<ul style="list-style-type: none"> <li>• 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:</li> </ul>	
Capital outlay purchases	20,104,596
Depreciation	( 4,314,007)
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	1,560,531
<ul style="list-style-type: none"> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:</li> </ul>	
Issuance of debt, net	( 1,701,680)
Repayments of debt	5,834,350
Bond premium, net of current year amortization	732,544
<ul style="list-style-type: none"> <li>• Some expenses reported in the Statement of Activities, such as accrued interest and compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</li> </ul>	( 218,500)
<ul style="list-style-type: none"> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.</li> </ul>	<u>856,298</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>9,997,307</u></b>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

General Fund

Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual

Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts
<b>Revenues and Other Sources:</b>			
Taxes	\$ 118,875,136	\$ 118,875,136	\$ -
Excise	6,881,218	6,881,218	592,390
Penalties, interest and other taxes	1,022,718	1,022,718	133,829
Charges for services	1,373,793	1,373,793	174,600
Intergovernmental	24,202,964	24,202,964	(115,390)
Licenses and permits	1,570,195	1,570,195	45,690
Fines and forfeits	635,000	635,000	(29,804)
Interest earnings	850,000	850,000	(173,311)
Other	607,276	607,276	(12,765)
Transfers in	1,948,226	1,948,226	-
Other sources	5,481,530	5,681,530	-
Total Revenues and Other Sources	163,448,056	163,648,056	615,239
<b>Expenditures and Other Uses:</b>			
General government	6,742,456	6,895,606	705,301
Public safety	19,704,562	19,723,322	391,727
Education	78,553,586	78,561,686	167,561
Public works	8,479,674	8,479,674	153,995
Human services	942,637	938,517	68,224
Culture and recreation	3,445,319	3,449,519	12,920
Employee benefits	29,849,896	29,839,886	149,462
Debt service	9,651,659	9,651,681	39,978
Intergovernmental	3,525,275	3,525,275	205,929
Miscellaneous	100,000	100,000	100,000
Transfers out	861,330	891,330	-
Other uses	1,591,662	1,591,662	-
Total Expenditures and Other Uses	163,448,056	163,648,056	1,995,097
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,610,336

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Net Assets

June 30, 2004

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water Fund	Sewer Fund	Nonmajor Fund	Total	Internal Service Funds
<b>ASSETS</b>					
Current:					
Cash and short-term investments	\$ 5,145,114	\$ 5,185,647	\$ 172,112	\$ 10,502,873	\$ 1,713,143
User fees, net of allowance for uncollectibles	2,969,073	4,271,053	-	7,240,126	-
Intergovernmental	-	327,600	-	327,600	-
Other assets	22,910	-	-	22,910	-
Total current assets	8,137,097	9,784,300	172,112	18,093,509	1,713,143
Noncurrent:					
Other assets	206,188	-	-	206,188	-
Land and construction in progress	760,331	388,593	701,712	1,850,636	-
Other capital assets, net of accumulated depreciation	26,578,031	12,598,123	311,982	39,488,136	-
Total noncurrent assets	27,544,550	12,986,716	1,013,694	41,544,960	-
<b>TOTAL ASSETS</b>	35,681,647	22,771,016	1,185,806	59,638,469	1,713,143
<b>LIABILITIES</b>					
Current:					
Warrants payable	568,210	318,491	451	887,152	425
Accounts payable	2,649	5,162	172,631	180,442	-
Accrued liabilities	75,730	40,013	11,543	127,286	3,816,446
Notes payable	1,024,835	301,765	-	1,326,600	-
Current portion of long-term liabilities:					
Bonds payable	492,556	285,478	51,170	829,204	-
Compensated absences	59,218	37,599	6,426	103,243	-
Other liabilities	-	16,208	-	16,208	-
Total current liabilities	2,223,198	1,004,716	242,221	3,470,135	3,816,871
Noncurrent:					
Bonds and notes payable	5,941,940	1,470,593	464,000	7,876,533	-
Compensated absences	1,209	767	131	2,107	-
Other liabilities	-	145,871	-	145,871	-
Total noncurrent liabilities	5,943,149	1,617,231	464,131	8,024,511	-
<b>TOTAL LIABILITIES</b>	8,166,347	2,621,947	706,352	11,494,646	3,816,871
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	22,126,873	11,705,660	570,935	34,403,468	-
Unrestricted	5,388,427	8,443,409	(91,481)	13,740,355	(2,103,728)
<b>TOTAL NET ASSETS</b>	\$ 27,515,300	\$ 20,149,069	\$ 479,454	\$ 48,143,823	\$ (2,103,728)

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Fiscal Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water Fund	Sewer Fund	Nonmajor Fund	Total	Internal Service Fund
<b>Operating Revenues:</b>					
Charges for services	\$ 8,872,940	\$ 11,900,571	\$ 354,784	\$ 21,128,295	\$ 26,151,421
Other	58,946	135,544	60,508	254,998	-
Total Operating Revenues	8,931,886	12,036,115	415,292	21,383,293	26,151,421
<b>Operating Expenses:</b>					
Salaries and wages	1,266,820	917,911	191,731	2,376,462	-
Operating expenses	1,634,415	1,312,968	123,222	3,070,605	25,383,371
Depreciation	716,203	559,081	24,311	1,299,595	-
Intergovernmental	4,658,438	7,916,207	-	12,574,645	-
Other	227,093	-	-	227,093	-
Total Operating Expenses	8,502,969	10,706,167	339,264	19,548,400	25,383,371
Operating Income (Loss)	428,917	1,329,948	76,028	1,834,893	768,050
<b>Nonoperating Revenues (Expenses):</b>					
Investment income	47,936	45,454	1,042	94,432	88,248
Interest expense	(91,117)	(61,018)	(13,126)	(165,261)	-
Other non operating expenses	(4,453)	-	-	(4,453)	-
Total Nonoperating Revenues (Expenses), Net	(47,634)	(15,564)	(12,084)	(75,282)	88,248
Income Before Transfers	381,283	1,314,384	63,944	1,759,611	856,298
<b>Transfers:</b>					
Transfers (net)	(879,440)	(676,269)	9,427	(1,546,282)	-
Change in Net Assets	(498,157)	638,115	73,371	213,329	856,298
Net Assets at Beginning of Year, as restated	28,013,457	19,510,954	406,083	47,930,494	(2,960,026)
Net Assets at End of Year	\$ 27,515,300	\$ 20,149,069	\$ 479,454	\$ 48,143,823	\$ (2,103,728)

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Cash Flows

Fiscal Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water Fund	Sewer Fund	Nonmajor Fund	Total	Internal Service Fund
<b><u>Cash Flows From Operating Activities:</u></b>					
Receipts from customers and users	\$ 8,644,634	\$ 11,124,355	\$ 415,292	\$ 20,184,281	\$ 26,151,421
Payments to vendors	(6,295,868)	(9,047,781)	(128,565)	(15,472,214)	(26,541,199)
Payments to employees	(1,190,253)	(923,052)	(229,110)	(2,342,415)	-
Net Cash Provided By (Used For) Operating Activities	1,158,513	1,153,522	57,617	2,369,652	(389,778)
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>					
Transfers in	575,660	851,570	130,166	1,557,396	167,991
Transfer out	(1,455,100)	(1,527,839)	(120,739)	(3,103,678)	(167,991)
Other non operating expenses	(4,453)	-	-	(4,453)	-
Net Cash Provided by (Used For) Noncapital Financing Activities	(883,893)	(676,269)	9,427	(1,550,735)	-
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>					
Proceeds from issuance of bonds and notes	4,869,685	670,665	347,170	5,887,520	-
Proceeds from refunded bonds	585,016	432,403	-	1,017,419	-
Acquisition and construction of capital assets	(4,162,678)	(1,187,004)	(279,218)	(5,628,900)	-
Disposal of capital assets, net of accumulated depreciation	764,346	632,694	-	1,397,040	-
Principal payments on bonds and notes	(2,139,774)	(267,178)	(376,232)	(2,783,184)	-
Payment to escrow agent for refunded bonds	(355,920)	(594,480)	-	(950,400)	-
Interest expense	(52,447)	(50,393)	(7,789)	(110,629)	-
Net Cash (Used For) Capital and Related Financing Activities	(491,772)	(363,293)	(316,069)	(1,171,134)	-
<b><u>Cash Flows From Investing Activities:</u></b>					
Investment income	47,936	45,454	1,042	94,432	88,248
Net Change in Cash and Short-Term Investments	(169,216)	159,414	(247,983)	(257,785)	(301,530)
Cash and Short-Term Investments, Beginning of Year	5,314,330	5,026,233	420,095	10,760,658	2,014,673
Cash and Short-Term Investments, End of Year	\$ 5,145,114	\$ 5,185,647	\$ 172,112	\$ 10,502,873	\$ 1,713,143
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>					
Operating income	\$ 428,917	\$ 1,329,948	\$ 76,028	\$ 1,834,893	\$ 768,050
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	716,203	559,081	24,311	1,299,595	-
Changes in assets and liabilities:					
User fees	(287,252)	(1,073,839)	-	(1,361,091)	-
Other assets	(229,098)	-	-	(229,098)	-
Warrants payable	453,176	156,817	(5,343)	604,650	(785,711)
Accrued liabilities	23,416	24,577	5,333	53,326	-
Other liabilities	53,151	156,938	(42,712)	167,377	(372,117)
Net Cash Provided By (Used For) Operating Activities	\$ 1,158,513	\$ 1,153,522	\$ 57,617	\$ 2,369,652	\$ (389,778)

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Pension Trust Fund (as of <u>December 31, 2003</u> )	Agency <u>Funds</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 1,015,011	\$ 5,651,477
Investments	<u>137,320,973</u>	<u>-</u>
Total Assets	138,335,984	5,651,477
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Accounts payable	2,369	-
Deferred revenue	3,625,000	-
Other liabilities	<u>-</u>	<u>5,651,477</u>
Total Liabilities	<u>3,627,369</u>	<u>5,651,477</u>
Total Net Assets Held in Trust For Pension Benefits	<u>\$ 134,708,615</u>	<u>\$ -</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Changes in Plan Net Assets  
Pension Trust Fund

For the Year Ended December 31, 2003

**Additions:**

Contributions:

Employers	\$ 7,023,200
Plan members	3,517,721
Reimbursements from Federal grants	100,066
Reimbursements from Commonwealth of Massachusetts	854,458
Reimbursements from other systems	558,326
Total contributions	<u>12,053,771</u>

Investment Income:

Interest and dividends	11,081
Realized gain	1,449,287
Unrealized appreciation (depreciation) in market value	26,916,369
Net investment income	<u>28,376,737</u>

Total additions	40,430,508
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**Deductions:**

Benefit payments to plan members and beneficiaries	13,251,688
Reimbursements to other systems	295,561
Refunds and transfers of plan member accounts to other systems	1,254,194
Administrative expenses	202,568
Total deductions	<u>15,004,011</u>

Net increase	25,426,497
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**Net assets held in trust for pension benefits:**

Beginning of Year	<u>109,282,118</u>
End of Year	<u>\$ 134,708,615</u>

See notes to financial statements.

# TOWN OF FRAMINGHAM, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. 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.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Framingham Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 150 Concord Street, Framingham, MA 01702.

#### B. Government-Wide and Fund Financial Statements

##### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

#### Fund Financial Statements

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

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

#### Government-Wide Financial Statements

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

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

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by

the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The High School Renovation fund accounts for all costs related to construction of the new high school.

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 non-operating revenues and expenses.

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

The government reports the following major proprietary funds:

- The water fund is used to report the Town's water enterprise fund operations.
- The sewer fund is used to report the Town's sewer enterprise fund operations.

In addition, the Town also maintains an enterprise fund for Arena activities, which is reported as a nonmajor fund.

The self-insured employee health program is reported as an internal service fund in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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 is 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 Contributory Retirement System are fully invested in the Commonwealth's Pension Reserve Investment Trust, and are carried at fair value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits 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 or debt exemption is voted. The actual fiscal year 2004 tax levy reflected an excess capacity of \$ 62,706.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

#### H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	7 - 20
Water/sewer infrastructure	50 - 75
Vehicles	5 - 10
Office equipment	5 - 10
Computer equipment	5

#### I. Compensated Absences

The government's policy is 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.

#### J. Long-Term Obligations

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

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, 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 special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

*B. Budgetary Basis*

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

*C. Budget/GAAP Reconciliation*

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 170,543,799	\$ 172,513,240
Other financing sources/uses (GAAP basis)	<u>6,930,807</u>	<u>5,873,911</u>
Subtotal (GAAP Basis)	177,474,606	178,387,151
Adjust tax revenue to accrual basis	( 546,939)	-
Reverse expenditures of prior year carryforwards	-	( 1,393,843)
Add end of year appropriation carryforwards to expenditures	-	1,630,643
Teachers' deferral	1,392,704	1,591,662
To reverse the effect of non- budgeted State contributions for teachers retirement	( 13,363,321)	( 13,363,321)
To reverse change in accrued interest	-	( 216,752)
Recognize other sources and uses	4,288,826	-
To reverse bond refunding	<u>( 4,982,581)</u>	<u>( 4,982,581)</u>
Budgetary basis	\$ <u>164,263,295</u>	\$ <u>161,652,959</u>

**D. Deficit Fund Equity/Net Assets**

The following funds had deficits as of June 30, 2004:

High School Building fund	\$ (38,479,546)
Nonmajor governmental funds:	
Emergency Management	( 7,984)
Boiler Replacement - Fuller School	( 1,841)
Community Development Block Grant	( 91,050)
Financial Management Software	( 93,793)
Save America's Treasures	( 7,012)
Governor's Highway Safety Bureau	( 4,111)
Proprietary funds:	
Internal service	( 2,103,728)

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

**3. Cash and Short-Term Investments**

The carrying amount of the Town's and Retirement System's deposits with financial institutions at June 30, 2004 and December 31, 2003 was \$ 64,827,684 and \$ 1,015,011, respectively. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows:

	<u>Town Deposits</u> <u>June 30, 2004</u>	<u>Retirement System</u> <u>Deposits</u> <u>December 31, 2003</u>
Amount insured by the FDIC and DIF, or collateralized with securities held by the Town in its name	\$ 725,737	\$ 100,000
Uncollateralized	45,755,215	931,104
State investment pool	<u>17,748,833</u>	<u>301,565</u>
Total Bank Balance	\$ <u>64,229,785</u>	\$ <u>1,332,669</u>

**4. Investments**

Contributory Retirement System investments are part of the Commonwealth's Pension Reserve Investment Trust and are categorized as uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name.

**5. Taxes Receivable**

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> 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, 2004 consist of the following (in thousands):

Real Estate			
2004	\$ 1,840		
2003	11		
Prior	<u>7</u>		1,858
Personal Property			
2004	128		
2003	102		
2002	94		
Prior	<u>746</u>		1,070
Tax Liens			2,474
Deferred Taxes			<u>248</u>
Total			\$ <u>5,650</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	\$ 1,334	\$ -
Excises	618	-
Utilities	-	547

#### 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2004.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance (1)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 95,562,523	\$ 3,601,206	\$ -	\$ 99,163,729
Machinery, equipment and furnishings	3,305,364	1,381,231	-	4,686,595
Vehicles	<u>7,883,204</u>	<u>959,948</u>	<u>-</u>	<u>8,843,152</u>
Total capital assets, being depreciated	106,751,091	5,942,385	-	112,693,476
Less accumulated depreciation for:				
Buildings and improvements	( 26,874,087)	( 2,780,262)	-	( 29,654,349)
Machinery, equipment and furnishings	( 1,230,267)	( 672,672)	-	( 1,902,939)
Vehicles	<u>( 4,667,625)</u>	<u>( 861,073)</u>	<u>-</u>	<u>( 5,528,698)</u>
Total accumulated depreciation	<u>( 32,771,979)</u>	<u>( 4,314,007)</u>	<u>-</u>	<u>( 37,085,986)</u>
Total capital assets, being depreciated, net	73,979,112	1,628,378	-	75,607,490
Capital assets, not being depreciated:				
Land	17,255,545	17,598	-	17,273,143
Construction in progress	<u>24,808,164</u>	<u>15,998,288</u>	<u>(1,853,675)</u>	<u>38,952,777</u>
Total capital assets, not being depreciated	<u>42,063,709</u>	<u>16,015,886</u>	<u>(1,853,675)</u>	<u>56,225,920</u>
Governmental activities capital assets, net	\$ <u>116,042,821</u>	\$ <u>17,644,264</u>	\$ <u>(1,853,675)</u>	\$ <u>131,833,410</u>

(1) As restated. See Note 22.

Note: The Town has not yet fully capitalized infrastructure assets for governmental activities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 4,003,782	\$ 188,320	\$ -	\$ 4,192,102
Machinery, equipment and furnishings	1,113,067	174,668	( 119,385)	1,168,350
Infrastructure	58,312,478	3,902,358	( 38,804)	62,176,032
Vehicles	<u>1,983,657</u>	<u>258,826</u>	<u>( 245,976)</u>	<u>1,996,507</u>
Total capital assets, being depreciated	65,412,984	4,524,172	( 404,165)	69,532,991
Less accumulated depreciation for:				
Buildings and improvements	( 2,602,846)	( 93,432)	-	( 2,696,278)
Machinery, equipment and furnishings	( 590,992)	( 37,087)	119,385	( 508,694)
Infrastructure	( 24,554,162)	( 1,020,553)	38,676	( 25,536,039)
Vehicles	<u>( 1,396,972)</u>	<u>( 148,523)</u>	<u>241,651</u>	<u>( 1,303,844)</u>
Total accumulated depreciation	<u>( 29,144,972)</u>	<u>( 1,299,595)</u>	<u>399,712</u>	<u>( 30,044,855)</u>
Total capital assets, being depreciated, net	36,268,012	3,224,577	( 4,453)	39,488,136

(continued)

(continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	639,803	-	-	639,803
Construction in progress	<u>1,498,692</u>	<u>1,104,728</u>	<u>(1,392,587)</u>	<u>1,210,833</u>
Total capital assets, not being depreciated	<u>2,138,495</u>	<u>1,104,728</u>	<u>(1,392,587)</u>	<u>1,850,636</u>
Business-type activities capital assets, net	\$ <u>38,406,507</u>	\$ <u>4,329,305</u>	\$ <u>(1,397,040)</u>	\$ <u>41,338,772</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:

General government	\$ 349,664
Public safety	766,106
Education	2,026,603
Public works	587,987
Health and human services	14,455
Culture and recreation	<u>569,192</u>

Total depreciation expense - governmental activities \$ 4,314,007

Business-Type Activities:

Water	\$ 716,203
Sewer	559,081
Arena	<u>24,311</u>

Total depreciation expense - business-type activities \$ 1,299,595

**9. Warrants and Accounts Payable**

Warrants payable represent 2004 expenditures paid by July 15, 2004 as permitted by law. Accounts payable represent additional 2004 expenditures paid after July 15, 2004.

**10. Deferred Revenue**

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2004 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

11. **Tax Refunds Payable**

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

12. **Notes Payable**

The Town had the following notes outstanding at June 30, 2004:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2004</u>
Bond anticipation	2.50%	03/21/03	03/01/05	\$ 20,758,000
Bond anticipation	2.00%	03/21/03	03/01/05	3,000,000
Bond anticipation	3.00%	06/12/03	03/01/05	20,670,000
Bond anticipation	2.75%	06/11/04	03/01/05	7,570,000
Bond anticipation	2.70%	06/11/04	03/20/05	<u>1,365,000</u>
Total				\$ <u>53,363,000</u>

The following summarizes activity in notes payable during fiscal year 2004:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond Anticipation	\$ 20,758,000	\$ -	\$ -	\$ 20,758,000
Bond Anticipation	3,000,000	-	-	3,000,000
Bond Anticipation	20,670,000	-	-	20,670,000
Bond Anticipation	2,283,000	-	2,283,000	-
Bond Anticipation	-	7,570,000	-	7,570,000
Bond Anticipation	<u>-</u>	<u>1,365,000</u>	<u>-</u>	<u>1,365,000</u>
Total	\$ <u>46,711,000</u>	\$ <u>8,935,000</u>	\$ <u>2,283,000</u>	\$ <u>53,363,000</u>

13. **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:

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2004
<u>Governmental Activities:</u>			
General obligation	06/05	4.33	\$ 160,000
General obligation	09/04	4.35	175,000
General obligation	07/07	4.43	1,625,000
General obligation	03/12	3.83	2,050,000
General obligation	08/14	4.00	10,970,000
General obligation	10/14	5.90	795,000
General obligation	03/15	4.94	1,462,200
General obligation	02/19	4.34	14,917,000
General obligation	03/13	3.00	985,000
General obligation	11/23	-	458,148
General obligation	03/20	5.51	14,410,000
General obligation	03/24	3.00	1,701,680
General obligation	03/15	3.00	<u>4,982,582</u>
Total Governmental			\$ <u>54,691,610</u>
<u>Business-Type Activities:</u>			
Water bond (MWRA)	03/13	3.00	\$ 460,000
Sewer bond	09/04	4.35	75,000
Sewer bond (MWRA)	05/07	-	140,712
Water bond	03/12	3.83	120,000
Water bond (MWRA)	03/20	5.51	607,726
Sewer bond	11/08	-	180,000
Sewer bond	03/12	3.83	195,000
Water bond (MWRA)	05/12	-	694,544
Sewer bond (MWRA)	06/15	2.54	273,616
Arena	02/19	4.34	83,000
Arena	08/14	4.00	70,000
Sewer	03/15	4.94	90,440
Water	03/15	4.94	122,360
Arena	03/13	3.00	15,000
Arena	03/23	3.00	347,170
Water	03/24	3.00	3,844,850
Sewer	03/12	3.00	41,300
Sewer (MWPAT)	03/24	-	327,600
Water	03/15	3.00	432,403
Sewer	03/15	3.00	<u>585,016</u>
Total Proprietary			\$ <u>8,705,737</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2004 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 5,826,620	\$ 2,382,112	\$ 8,208,732
2006	5,060,911	2,112,333	7,173,244
2007	4,778,895	1,903,366	6,682,261
2008	4,687,092	1,721,006	6,408,098
2009	4,219,727	1,545,172	5,764,899
2010 - 2014	18,109,051	5,256,139	23,365,190
2015 - 2019	10,759,314	1,853,814	12,613,128
2020 - 2024	<u>1,250,000</u>	<u>91,918</u>	<u>1,341,918</u>
Total	\$ <u>54,691,610</u>	\$ <u>16,865,860</u>	\$ <u>71,557,470</u>

The general fund has been designated as the source to repay the governmental-type general obligation debt outstanding as of June 30, 2004.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 829,205	\$ 237,922	\$ 1,067,127
2006	756,173	219,056	975,229
2007	759,698	204,693	964,391
2008	701,328	193,137	894,465
2009	645,438	180,437	825,875
2010 - 2014	2,545,875	695,155	3,241,030
2015 - 2019	1,333,020	373,644	1,706,664
2020 - 2024	<u>1,135,000</u>	<u>134,275</u>	<u>1,269,275</u>
Total	\$ <u>8,705,737</u>	\$ <u>2,238,319</u>	\$ <u>10,944,056</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2004 are as follows:

<u>Purpose</u>	<u>Amount</u>
High School renovations	\$ 53,999,836
Park Street drainage	280,000
Wauhakum Lake	55,820
Kennell	2,500
Carter, Merlon, Tus Light	13,444
Sudbury main rehab	78,174
I&I evaluation	75,000
Vaillencourt pump	130,000
Main rehab/reline	26,670
Henry Street remed	18,400
Brophy School roof	89,710
School field mower	400
Financial management software	197,071
Comprehensive sewer main study	22,400

(continued)

(continued)

<u>Purpose</u>	<u>Amount</u>
Roof replacement	12,768
Tercentennial Park	355,150
Walsh School boiler replacement	78,500
Fuller School boiler replacement	83,700
Franklin Street water main replacement	1,011,500
Franklin Street sewer main replacement	675,000
Senior Center	1,800,000
Tercentennial Park - Phase II	420,000
Rubbish packer/plow	70,652
Engine 5 fire pumper	430,000
Walsh School roof replacement	1,610,000
Franklin Street - Phase II (water)	969,000
C&L Grove Street water mains	1,368,000
Water System Management - Phase II	304,000
Carter Drive water main replacement	1,120,000
Hydrants replacement	405,000
Birch Road well reactivation	129,502
Franklin Street - Phase II (sewer)	451,000
Howard Street sewer replacement	1,100,000
I&I Study	375,000
Hemenway pump station replacement	307,881
Bowditch Field resurfacing	<u>185,000</u>
Total	<u>\$ 68,251,078</u>

D. Overlapping Debt

The Town's proportionate share of debt of other governmental units which provide services within the Town's boundaries, and which must be borne by the resources of the Town, is summarized below (in thousands, audited):

<u>Related Entity</u>	<u>Principal</u>	<u>Town's Estimated Share</u>	
MWRA - Water	\$ 1,549,987	3.921%	\$ 60,775
MWRA - Sewer	3,453,511	2.909%	<u>100,463</u>
			<u>\$ 161,238</u>

E. Legal Debt Margin

The Town is subject to the General Laws of the Commonwealth of Massachusetts which, in general, limits the amount of bonded debt the Town may have outstanding to 5 percent of the valuation of taxable property as last equalized by the Commonwealth's Department of Revenue. The following is a computation of the legal debt margin as of June 30, 2004 (in thousands of dollars):

Equalized valuation - January 1, 2004			\$ <u>8,218,221</u>
Debt limit - 5% of equalized valuation			\$ 410,911
Total debt outstanding	63,397		
Less: debt exempt from limit	(37,881)		( <u>25,516</u> )
Legal Debt Margin			\$ <u>385,395</u> *

\* Does not include authorized but unissued debt.

F. Advance and Current Refundings

Current Year

On March 17, 2004, the Town issued general obligation bonds in the amount of \$ 6,000,000 with a variable interest rate ranging from 2.0% to 5.0% to advance refund \$ 5,595,000 of term bonds with an interest rate of 4.4%. The term bonds mature on March 15, 2015 and are callable on September 15, 2004. The general obligation bonds were issued and, after paying issuance costs of \$ 92,198, and receiving a premium of \$ 151,160, the net proceeds were \$ 6,065,721. 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 term bonds are called on September 15, 2004. 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 \$ 326,728, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 280,697.

Defeased debt still outstanding at June 30, 2004 is \$ 5,595,000.

G. Changes in General Long-Term Liabilities

During the year ended June 30, 2004, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/03	Additions	Reductions	Refunding	Total Balance 6/30/04	Less Current Portion	Equals Long-Term Portion 6/30/04
<u>Governmental Activities</u>							
Bonds payable	\$ 58,486	\$ 6,684	\$ (5,834)	\$ (4,644)	\$ 54,692	\$ (5,827)	\$ 48,865
Accrued employee benefits	2,071	321	( 14)	-	2,378	(1,744)	634
Unamortized premium	<u>1,099</u>	-	( 733)	-	<u>366</u>	( 366)	-
Totals	\$ <u>61,656</u>	\$ <u>7,005</u>	\$ (6,581)	\$ (4,644)	\$ <u>57,436</u>	\$ (7,937)	\$ <u>49,499</u>

(continued)

	Total Balance <u>7/1/03</u>	Additions	Reductions	Refunding	Total Balance <u>6/30/04</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/04</u>
<u>Business-Type Activities</u>							
Bonds payable	\$ 4,662	\$ 5,578	\$ ( 584)	\$ ( 950)	\$ 8,706	\$ ( 829)	\$ 7,877
Accrued employee benefits	100	11	( 6)	-	105	( 103)	2
Other liabilities	-	162	-	-	162	( 16)	146
Totals	\$ <u>4,762</u>	\$ <u>5,751</u>	\$ <u>( 590)</u>	\$ <u>( 950)</u>	\$ <u>8,973</u>	\$ <u>( 948)</u>	\$ <u>8,025</u>

#### 14. Restricted Net Assets

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

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

#### 15. Reserves of Fund Equity

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

The following types of reserves are reported at June 30, 2004:

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

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

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

#### 16. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal

Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such overexpenditures, however, must be funded in the subsequent year's tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The Massachusetts State Legislation also allowed municipalities to defer funding for a portion of the 1992 and 1993 teachers' summer pay to future years. This must be funded within a 15-year period, beginning in 1997.

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 statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 4,975,121
Teacher pay deferral	1,392,704
Tax refund estimate	<u>1,316,500</u>
Statutory (UMAS) Balance	\$ <u>7,684,325</u>

## 17. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

## 18. Post-Employment Health Care and Life Insurance Benefits

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents,

or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2004 was not available.

## 19. Contributory Retirement System

### A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Framingham Contributory Retirement System (FCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the FCRS. 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 FCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The FCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	810
Terminated plan members entitled to but not yet receiving benefits	164
Active plan members	<u>1,109</u>
Total	<u>2,083</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings 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%

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

**B. Summary of Significant Accounting Policies**

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

**C. Teachers**

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute. All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%

\* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

In fiscal year 2004, the Commonwealth of Massachusetts contributed \$ 13,363,321 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

## 20. Self Insurance

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

### Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for claims up to \$ 75,000 per incident, with a maximum lifetime coverage of \$ 2,000,000. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2004 are as follows:

	<u>Health Coverage</u>
Claims liability, July 1, 2003	\$ 4,188,563
Claims incurred/recognized in fiscal year 2004	25,383,371
Claims paid in fiscal year 2004	<u>(25,755,488)</u>
Claims liability, June 30, 2004	\$ <u>3,816,446</u>

## 21. Risk Management

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

## 22. Beginning Net Asset Restatement

The beginning (July 1, 2003) fund balances/net assets of the Town have been restated as follows:

	Governmental Activities	<u>Enterprise Funds</u>			Total Bus.-Type Activities
		Water Fund	Sewer Fund	Nonmajor Fund	
As previously reported	\$ 53,396,635	\$ 28,553,377	\$ 20,241,434	\$ 583,083	\$ 49,377,894
Correct prior year capital assets	1,888,713	-	-	-	-
Reclass bonds payable	<u>1,447,400</u>	<u>( 539,920)</u>	<u>( 730,480)</u>	<u>(177,000)</u>	<u>( 1,447,400)</u>
As restated	\$ <u>56,732,748</u>	\$ <u>28,013,457</u>	\$ <u>19,510,954</u>	\$ <u>406,083</u>	\$ <u>47,930,494</u>

**TOWN OF FRAMINGHAM, MASSACHUSETTS**  
**CONTRIBUTORY RETIREMENT SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**

Schedules of Funding Progress and Employer Contributions

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

Schedule of Funding Progress (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
1/01/91	\$ 40,645	\$ 92,433	\$ 51,788	44.0%	\$ 27,351	189%
1/01/95	\$ 62,360	\$ 122,220	\$ 59,860	51.0%	\$ 29,168	205%
1/01/98	\$ 105,941	\$ 156,983	\$ 51,042	67.5%	\$ 33,120	154%
1/01/00	\$ 147,572	\$ 181,149	\$ 33,577	81.5%	\$ 39,871	84%
1/01/02	\$ 142,893	\$ 206,810	\$ 63,917	69.1%	\$ 42,132	152%

Information is only provided for those years in which an actuarial valuation or actuarial update was performed. Information prior to 1991 is not available.

Schedule of Employer Contributions (Town share only):

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1993	\$ 5,378,958	100%
1994	5,663,861	100%
1995	6,805,493	100%
1996	6,195,869	100%
1997	6,449,439	100%
1998	6,655,700	100%
1999	6,945,980	100%
2000	6,888,019	100%
2001	6,023,613	100%
2002	6,521,400	100%
2003	6,796,400	100%
2004	6,994,318	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	January 1, 2002
Actuarial cost method	Individual entry age normal
Amortization method	4.5% increasing
Remaining amortization period	26 years
Asset valuation method	5 year smoothing
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75 - 5.25%
Cost of living adjustments	3% of \$ 12,000 per year of retirement income (included in January 1, 1998 figures)

See Independent Auditors' Report.