

**TOWN OF  
FRAMINGHAM, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2010**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	14
Statement of Activities	15
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	20
<b>Proprietary Funds:</b>	
Statement of Net Assets	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets	22
Statement of Cash Flows	23
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Assets	24
Statement of Changes in Fiduciary Net Assets	25
<b>Notes to Financial Statements</b>	26
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedule of Funding Progress	57



# MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 107

Andover, MA 01810-1096

(978) 749-0005 • Fax (978) 749-0006

[www.melansonheath.com](http://www.melansonheath.com)

## 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, 2010, (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2009) 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, 2010, (except the Framingham Contributory Retirement System which is as of December 31, 2009), 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:*

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

The management's discussion and analysis, appearing on the following pages, and the supplementary information appearing on page 57, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 16, 2011 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Melanson, Heath + Company P.C.*

Andover, Massachusetts  
May 16, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Town of Framingham, we offer readers this narrative overview and analysis of the financial activities of the Town of Framingham for the fiscal year ended June 30, 2010. 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 \$ 202,063 (net assets). Of this amount, \$ 21,161 constitutes unrestricted net assets some of which are available for use as of June 30, 2010.
- The government's total net assets changed by \$ (4,586) in the fiscal year.
- As of the close of the current fiscal year, the Town of Framingham's governmental funds reported combined ending fund balances of \$ 12,081, a change of \$ (1,727) in comparison with the prior year.
- At the end of the current fiscal year, unreserved/undesignated fund balance for the general fund was \$ 3,166 or 1.4% of total general fund expenditures. Management has established an additional \$ 99 as a general fund designated fund balance.
- The Town of Framingham's total debt (bonds and bond anticipation notes) was \$ 173,280, a change of \$ 69,810 during the current year.

### **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 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 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 of the Town of Framingham distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities 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 and Sewer 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 municipal buildings 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 and Sewer 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 self-insured employee health programs. 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 and Sewer operations. Water and Sewer 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 Town of Framingham's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information 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 (in thousands).

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 78,389	\$ 77,082	\$ 76,544	\$ 32,592	\$ 154,933	\$ 109,674
Capital assets	185,169	181,244	113,570	79,432	298,739	260,676
Total assets	<u>263,558</u>	<u>258,326</u>	<u>190,114</u>	<u>112,024</u>	<u>453,672</u>	<u>370,350</u>
Long-term liabilities						
outstanding	93,167	80,964	34,989	28,911	128,156	109,875
Notes payable	11,390	6,921	79,763	17,900	91,153	24,821
Other liabilities	26,324	24,270	5,976	4,734	32,300	29,004
Total liabilities	<u>130,881</u>	<u>112,155</u>	<u>120,728</u>	<u>51,545</u>	<u>251,609</u>	<u>163,700</u>
Net assets:						
Invested in capital assets, net of related debt	126,223	124,867	45,235	39,953	171,458	164,820
Restricted	9,444	8,805	-	-	9,444	8,805
Unrestricted	<u>(2,990)</u>	<u>12,499</u>	<u>24,151</u>	<u>20,526</u>	<u>21,161</u>	<u>33,025</u>
Total net assets	<u>\$ 132,677</u>	<u>\$ 146,171</u>	<u>\$ 69,386</u>	<u>\$ 60,479</u>	<u>\$ 202,063</u>	<u>\$ 206,650</u>

**CHANGES IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 26,964	\$ 22,599	\$ 30,549	\$ 29,073	\$ 57,513	\$ 51,672
Operating grants and contributions	56,320	55,131	-	10	56,320	55,141
Capital grants and contributions	4,313	1,970	7,750	277	12,063	2,247
General revenues:						
Property Taxes	151,384	144,149	-	-	151,384	144,149
Excises	6,160	6,108	-	-	6,160	6,108
Penalties, interest and other taxes	3,294	3,698	-	-	3,294	3,698
Grants and contributions not restricted to specific programs	9,275	10,299	-	-	9,275	10,299
Investment income	598	409	6	61	604	470
Miscellaneous	<u>1,058</u>	<u>914</u>	<u>647</u>	<u>-</u>	<u>1,705</u>	<u>914</u>
<b>Total revenues</b>	<u>259,366</u>	<u>245,277</u>	<u>38,952</u>	<u>29,421</u>	<u>298,318</u>	<u>274,698</u>

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
<b>Expenses:</b>						
General government	10,672	10,884	-	-	10,672	10,884
Public safety	30,536	30,524	-	-	30,536	30,524
Education	147,556	141,636	-	-	147,556	141,636
Public works	15,233	15,037	-	-	15,233	15,037
Human services	1,490	1,455	-	-	1,490	1,455
Culture and recreation	7,341	6,842	-	-	7,341	6,842
Employee benefits	57,329	52,968	-	-	57,329	52,968
Interest	1,736	2,445	-	-	1,736	2,445
Intergovernmental	3,487	3,351	-	-	3,487	3,351
Water	-	-	12,162	12,256	12,162	12,256
Sewer	-	-	15,363	14,081	15,363	14,081
<b>Total expenses</b>	<u>275,380</u>	<u>265,142</u>	<u>27,525</u>	<u>26,337</u>	<u>302,905</u>	<u>291,479</u>
Increase in net assets before transfers	(16,014)	(19,865)	11,427	3,084	(4,587)	(16,781)
Transfers	<u>2,520</u>	<u>2,325</u>	<u>(2,520)</u>	<u>(2,325)</u>	-	-
Change in net assets	<u>(13,494)</u>	<u>(17,540)</u>	<u>8,907</u>	<u>759</u>	<u>(4,587)</u>	<u>(16,781)</u>
Net assets - beginning of year	<u>146,171</u>	<u>163,711</u>	<u>60,479</u>	<u>59,720</u>	<u>206,650</u>	<u>223,431</u>
Net assets - end of year	<u>\$ 132,677</u>	<u>\$ 146,171</u>	<u>\$ 69,386</u>	<u>\$ 60,479</u>	<u>\$ 202,063</u>	<u>\$ 206,650</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 \$ 202,063 at the close of the most recent fiscal year.

The largest portion of the Town of Framingham's net assets (84.9%) 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 (4.7%) 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 \$ 21,161, which includes amounts that are available for use as of June 30, 2010, 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 a change in net assets of \$ (13,494). Key elements of this change are as follows:

Excess of revenues over expenditures:

General fund	\$ (728)
Special revenue funds	547
General fund transfers from enterprise funds, net	<u>2,520</u>
Subtotal	2,339
Depreciation in excess of debt service principal paydown	(2,375)
Increase in net OPEB obligation	(14,108)
Other	<u>650</u>
Total	<u>\$ (13,494)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$ 8,907. Key elements of this change are as follows (in thousands):

Water operations	\$ 2,227
Sewer operations	<u>6,680</u>
Total	<u>\$ 8,907</u>

The change in net assets for water operations is attributable to expenses less than budget. The change in net assets for sewer operations is directly related to the one time receipt of grant funds from the Massachusetts Life Sciences Center.

#### **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's governmental funds reported combined ending fund balances of \$ 12,081, a change of \$ (1,727) in comparison with the prior year.

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 \$ 4,350 and (2) to be used as a funding source for the subsequent budget \$ 1,894.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$ 3,166 while total fund balance was \$ 6,237. 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 1.4% of total general fund expenditures, while total fund balance represents 2.9% of that same amount. Management has established \$ 99 of the general fund balance for petty cash, inventory, and to pay the debt service on the current notes payable. The following table highlights the change in our General fund balance accounts (in thousands):

Use of other funding sources	\$ (1,718)
Raising of prior year deficit and deferral	1,686
Revenues less than budget	(1,504)
Expenditures less than budget	1,526
Tax collections in excess of levy	1,810
Other	<u>(514)</u>
Total Change in Fund Balance	<u>\$ 1,286</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 24,151. The total change in net assets was \$ 8,907. 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.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

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

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 1,054, due to a change in General Government of \$ 56, Public Safety of \$ 41, Human Services of \$ 8, Culture and Recreation of \$ 37, Employee Benefits of \$ (329), Debt Service of \$ 364, and Transfers Out of \$ 877. The additional appropriations were funded by local rooms and meals tax, intergovernmental revenues, mitigation revenues, and transfers from other funds.

## 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, 2010 amounts to \$ 298,739 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles and infrastructure.

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

<u>CAPITAL ASSETS</u> (net of depreciation) June 30, 2010 and 2009						
	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 18,521	\$ 18,521	\$ 1,108	\$ 320	\$ 19,629	\$ 18,841
Buildings and improvements	122,238	123,175	14,775	3,413	137,013	126,588
Vehicles, machinery, and equipment	11,625	11,523	3,665	2,791	15,290	14,314
Infrastructure	25,930	25,855	63,016	47,406	88,946	73,261
Construction in progress	<u>6,855</u>	<u>2,170</u>	<u>31,006</u>	<u>25,502</u>	<u>37,861</u>	<u>27,672</u>
Total	<u>\$ 185,169</u>	<u>\$ 181,244</u>	<u>\$ 113,570</u>	<u>\$ 79,432</u>	<u>\$ 298,739</u>	<u>\$ 260,676</u>

Significant capital asset activity for fiscal year 2010 included:

- The Department of Public Works started construction on the three sewer projects appropriated in FY07 after completing design and funding applications in the prior year. Approximately 4,000 feet of sewer lines were installed in Water Street with \$ 5,545 of the \$ 7,295 being expended. Gregory Road, which is part of the Water Street Project, had been substantially completed. Of the \$ 3,500 appropriated for Fenwick Pump Station, \$2,973 has been expended on reconstruction which started up again in March and will be completed in 2011. The Fenwick Pump Station and Water Street reconstruction received partial funding via a 2% Clean Water State Revolving Fund loan program from the Bureau of Resource Protection of \$ 2,643 and \$ 6,419 in December 2007.
- The Cove Avenue and Fay Road projects, authorized in 2007, for a combined appropriation of \$ 2,017 were completed for \$ 2,007. \$ 670 has been spent on the Booster Station Replacement at William J. Heights, authorized for \$ 765, and is to be completed in December 2010. Sewer Main Replacement design at Water Street and Gregory Road, appropriated for \$ 1,592, was awarded in the fall of 2007 and \$ 1,368 has been expended thus far. Sewer Improvements at Concord and School Streets, appropriated for \$ 5,557, has \$ 680 of expenditures. Design for Wastewater Pumping Stations projects,

appropriated for \$ 8,009, started in the fall of 2007, and \$ 2,360 has been expended. East Framingham Sewer Improvement Project Phase 1, appropriated for \$ 2,708, was awarded in the fall of 2007, and \$ 2,669 has been expended. The Automated Meter Reading program for a combined \$ 2,565 started during the summer 2008 construction season, and \$ 2,426 has been expended.

- At the 2005 Annual Town Meeting, the Town appropriated \$ 412 to complete a Master Plan for the reconstruction of the Bowditch Athletic Complex. As a result of the study, at the 2008 Annual Town Meeting, the Town authorized \$ 7,900 to renovate and reconstruct the Bowditch Athletic Complex. The project addresses the need for grandstands, parking, locker rooms, public bathrooms and baseball bleachers as well as a maintenance garage for the Parks Maintenance Operations. The maintenance garage near the Loring Arena was completed on schedule for under \$ 2,292 original contract award. The Athletic Complex project contract was awarded at \$ 4,443. It is scheduled to be completed by the Grand Opening planned for October 9-11, 2010.
- At the 2008 Annual Town Meeting, the Town authorized over \$ 21,000 in Water Capital Projects and \$ 9,000 in Sewer Capital Projects. The Water Main Replacement program for Grove Street Water Pump Station for \$ 2,870 has not started. \$ 3,712 has been expended on the Water Street Water Main Construction appropriated for \$ 8,522. \$ 1,155 and \$1,527 has been expended on the Prospect Street area Water and Sewer Main Replacement appropriated for \$ 3,000 and \$ 2,783, respectfully. The Goodnow Water Storage Tank Rehabilitation appropriated for \$ 891 was completed before December 2009. To date, \$ 530 on the \$ 1,100 Farm Pond Interceptor Sewer Rehabilitation Project has been expended, and the Sewer lining is complete. \$ 541 has been expended on the \$ 1,753 Cove Area Sewer Main Rehabilitation.
- At the 2009 Annual Town Meeting, \$ 40,337 was appropriated to construct the Birch Road Water Treatment Center. The project proposes to reactivate the Birch Road Wells which are located in the northeast corner of Framingham. The project will provide the Town with an independent and dependable source of drinking water. Since 2004, the Town has previously appropriated \$ 5,530 and expended \$ 2,790 on studies and design on this project.
- To comply with the Administrative Consent Order issued by the Department of Environmental Protection and Settlement Agreement with the Massachusetts Water Resources Authority, \$ 40,407 was voted to reconfigure the sewer system in East Framingham. This project has been approved for \$ 38,066 in loans from Clean Water State Revolving Fund loan program. Construction is to be completed over three phases with an estimated completion date of November 2011. \$ 5,591 has been expended to date on Phase I.
- The Town received authorization of \$ 12,900 in grant funds from Massachusetts Life Science Center for improvements to Water and Sewer infrastructure and the Pleasant Street Pump Station in the Technology Park area. \$ 5,663 has been expended on these projects.

- At the 2010 Annual Town Meeting, \$ 17,967 was voted for additional Water Capital Projects including \$ 9,619 for North Concord Street Water Mains, \$ 1,385 for Goodnow Pump Station, as well as \$ 6,263 for Grant and Pond Street. In addition, \$ 7,402 was appropriated for Sewer Projects of which \$ 6,552 was for Sewer Lines in the Grant and Pond Street Area.

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

**Long-term debt.** At the end of the current fiscal year, the Town of Framingham had total bonded debt and anticipation notes outstanding of \$ 173,280, all of which was backed by the full faith and credit of the government.

The following is a summary of the Town’s outstanding debt for the current and prior fiscal years (in thousands):

OUTSTANDING DEBT  
General Obligation Bonds and Anticipation Notes  
June 30, 2010 and 2009

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 48,888	\$ 50,867	\$ 33,239	\$ 27,782	\$ 82,127	\$ 78,649
Bond anticipation notes	<u>11,390</u>	<u>6,921</u>	<u>79,763</u>	<u>17,900</u>	<u>91,153</u>	<u>24,821</u>
Total	<u>\$ 60,278</u>	<u>\$ 57,788</u>	<u>\$ 113,002</u>	<u>\$ 45,682</u>	<u>\$ 173,280</u>	<u>\$ 103,470</u>

**Change in credit rating.** The Town of Framingham maintains an “Aa2” 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 \$ 422,343, 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 6.7% (June), which is down from the 7.2% rate from June 2009. This compares to the State’s unemployment rate of 8.4% and the national rate of 9.5%.
- 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 2011 fiscal year.

- During the current fiscal year, unreserved fund balance in the general fund increased to \$ 3,166. In addition, the Town of Framingham has appropriated \$ 1,606 of “free cash” to finance the FY11 general fund operating budget.
- In FY10, the Town transferred a net \$ 678 into the Stabilization fund, as well as appropriating a net transfer of \$ 1,262 for FY11.
- The \$ 2,070 of “free cash” certified by the Massachusetts Department of Revenue as of July 1, 2010, is available, subject to appropriation, to finance FY11 and FY12 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, 2010

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 29,712,314	\$ 11,769,527	\$ 41,481,841
Investments	12,985,386	-	12,985,386
Receivables, net of allowance for uncollectibles:			
Property taxes	2,202,326	-	2,202,326
Motor vehicle excise	1,002,033	-	1,002,033
User fees	330,079	11,886,320	12,216,399
Departmental and other	54,766	-	54,766
Intergovernmental	9,031,937	50,013,964	59,045,901
Assessments	-	93,838	93,838
Other assets	137,115	22,910	160,025
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax title	1,901,937	-	1,901,937
Departmental and other	358,153	-	358,153
Intergovernmental	19,869,635	1,392,464	21,262,099
Assessments	-	1,295,698	1,295,698
Other assets	802,994	68,728	871,722
Land and construction in progress	25,376,225	32,113,908	57,490,133
Other capital assets, net of accumulated depreciation	<u>159,792,727</u>	<u>81,456,499</u>	<u>241,249,226</u>
<b>TOTAL ASSETS</b>	<b>263,557,627</b>	<b>190,113,856</b>	<b>453,671,483</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	5,669,306	5,202,319	10,871,625
Accounts payable	80,671	143,027	223,698
Retainage payable	150,813	204,090	354,903
Accrued liabilities	15,757,192	426,958	16,184,150
Tax refunds payable	4,451,273	-	4,451,273
Notes payable	11,390,096	79,762,557	91,152,653
Other liabilities	214,629	-	214,629
Current portion of long-term liabilities:			
Bonds payable	6,696,797	2,759,187	9,455,984
Compensated absences	1,923,801	115,517	2,039,318
Other liabilities	-	16,208	16,208
Noncurrent:			
Bonds payable	42,191,650	30,479,994	72,671,644
Net OPEB obligation	41,566,499	1,559,930	43,126,429
Compensated absences	787,842	9,550	797,392
Other liabilities	<u>-</u>	<u>48,623</u>	<u>48,623</u>
<b>TOTAL LIABILITIES</b>	<b>130,880,569</b>	<b>120,727,960</b>	<b>251,608,529</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	126,222,464	45,235,084	171,457,548
Restricted for:			
Grants and other statutory restrictions	7,210,066	-	7,210,066
Permanent funds:			
Nonexpendable	464,790	-	464,790
Expendable	1,769,236	-	1,769,236
Unrestricted	<u>(2,989,498)</u>	<u>24,150,812</u>	<u>21,161,314</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>132,677,058</u></b>	<b>\$ <u>69,385,896</u></b>	<b>\$ <u>202,062,954</u></b>

See notes to financial statements.



TOWN OF FRAMINGHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	<u>General</u>	<u>Municipal Buildings Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 13,243,576	\$ 2,182,796	\$ 8,575,728	\$ 24,002,100
Investments	8,437,729	-	4,547,657	12,985,386
Receivables:				
Property taxes	5,517,942	-	-	5,517,942
Motor vehicle excise	2,158,865	-	-	2,158,865
User fees	-	-	330,079	330,079
Departmental and other	7,719	-	379,539	387,258
Intergovernmental	256,520	144,513	6,119,909	6,520,942
Other assets	15,617	-	-	15,617
<b>TOTAL ASSETS</b>	<b>\$ 29,637,968</b>	<b>\$ 2,327,309</b>	<b>\$ 19,952,912</b>	<b>\$ 51,918,189</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants payable	\$ 3,182,176	\$ 1,296,033	\$ 1,188,091	\$ 5,666,300
Accounts payable	-	-	80,671	80,671
Retainage payable	-	150,813	-	150,813
Accrued liabilities	9,083,630	3,224	814,718	9,901,572
Tax refunds payable	4,451,273	-	-	4,451,273
Deferred revenues	6,498,277	-	1,483,059	7,981,336
Other liabilities	185,377	-	29,252	214,629
Notes payable	-	8,408,477	2,981,619	11,390,096
<b>TOTAL LIABILITIES</b>	<b>23,400,733</b>	<b>9,858,547</b>	<b>6,577,410</b>	<b>39,836,690</b>
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	1,365,597	1,109,083	1,875,229	4,349,909
Expenditures	1,606,328	-	287,958	1,894,286
Perpetual (nonexpendable) permanent funds	-	-	464,790	464,790
Unreserved:				
Designated	98,963	-	-	98,963
Undesignated, reported in:				
General fund	3,166,347	-	-	3,166,347
Special revenue funds	-	-	11,605,922	11,605,922
Capital projects funds	-	(8,640,321)	(2,627,633)	(11,267,954)
Permanent expendable	-	-	1,769,236	1,769,236
<b>TOTAL FUND BALANCES</b>	<b>6,237,235</b>	<b>(7,531,238)</b>	<b>13,375,502</b>	<b>12,081,499</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 29,637,968</b>	<b>\$ 2,327,309</b>	<b>\$ 19,952,912</b>	<b>\$ 51,918,189</b>

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

JUNE 30, 2010

<b>Total governmental fund balances</b>	\$	12,081,499
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		185,168,952
• Noncurrent assets, including MSBA reimbursements for contracted assistance, are not receivable in the current period and, therefore, are not reported in the governmental funds.		22,380,630
• Deferred debt expense for refunding is net of amortization on the statement of net assets, whereas all debt expense is reported when paid in the governmental funds.		924,492
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.		5,410,825
• Internal service 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.		431,471
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(554,222)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable		(48,888,447)
Net OPEB obligation		(41,566,499)
Compensated absences liability		<u>(2,711,643)</u>
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u><u>132,677,058</u></u></b>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Municipal Buildings Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 152,629,094	\$ -	\$ -	\$ 152,629,094
Excises	5,867,722	-	-	5,867,722
Penalties, interest and other taxes	3,293,676	-	-	3,293,676
Charges for services	2,231,916	-	8,705,857	10,937,773
Intergovernmental	49,618,731	529,884	21,665,485	71,814,100
Licenses and permits	2,723,946	-	83,225	2,807,171
Fines and forfeitures	566,958	-	16,734	583,692
Interest earnings	101,547	-	311,607	413,154
Contributions	-	-	494,865	494,865
Miscellaneous	740,548	45,000	272,846	1,058,394
Total Revenues	<u>217,774,138</u>	<u>574,884</u>	<u>31,550,619</u>	<u>249,899,641</u>
<b>Expenditures:</b>				
Current:				
General government	7,010,626	-	3,313,431	10,324,057
Public safety	23,341,728	-	3,426,030	26,767,758
Education	113,881,557	-	20,331,400	134,212,957
Public works	11,280,217	-	1,757,451	13,037,668
Human services	1,101,438	-	155,064	1,256,502
Culture and recreation	5,213,929	-	451,886	5,665,815
Employee benefits	44,417,063	-	-	44,417,063
Debt service	8,768,678	-	-	8,768,678
Intergovernmental	3,487,214	-	-	3,487,214
Capital outlay	-	8,589,041	2,596,087	11,185,128
Total Expenditures	<u>218,502,450</u>	<u>8,589,041</u>	<u>32,031,349</u>	<u>259,122,840</u>
Excess (Deficiency) of revenues over expenditures	(728,312)	(8,014,157)	(480,730)	(9,223,199)
<b>Other Financing Sources (Uses):</b>				
Issuance of debt	-	2,139,445	2,836,827	4,976,272
Transfers in	2,902,135	-	877,284	3,779,419
Transfers out	(887,784)	(9,042)	(362,607)	(1,259,433)
Total Other Financing Sources (Uses)	<u>2,014,351</u>	<u>2,130,403</u>	<u>3,351,504</u>	<u>7,496,258</u>
Change in fund balance	1,286,039	(5,883,754)	2,870,774	(1,726,941)
Fund Balance, at Beginning of Year, as reclassified	<u>4,951,196</u>	<u>(1,647,484)</u>	<u>10,504,728</u>	<u>13,808,440</u>
Fund Balance, at End of Year	<u>\$ 6,237,235</u>	<u>\$ (7,531,238)</u>	<u>\$ 13,375,502</u>	<u>\$ 12,081,499</u>

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, 2010

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ (1,726,941)</b>																						
<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: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of disposals</td> <td style="text-align: right;">13,254,736</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(9,330,077)</td> </tr> </table> </li> <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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(691,869)</td> </tr> </table> </li> <li>• Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(2,661,959)</td> </tr> </table> </li> <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: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(4,976,272)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">6,955,011</td> </tr> <tr> <td>Deferred debt amortization</td> <td style="text-align: right;">(121,499)</td> </tr> </table> </li> <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">77,792</td> </tr> </table> </li> <li>• Some expenses reported in the Statement of Activities, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table border="0" style="margin-left: 40px;"> <tr> <td>Increase in liability for compensated absences</td> <td style="text-align: right;">(73,015)</td> </tr> <tr> <td>Increase in net OPEB obligation</td> <td style="text-align: right;">(14,108,132)</td> </tr> </table> </li> <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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(91,510)</td> </tr> </table> </li> </ul>		Capital outlay purchases, net of disposals	13,254,736	Depreciation	(9,330,077)		(691,869)		(2,661,959)	Issuance of debt	(4,976,272)	Repayments of debt	6,955,011	Deferred debt amortization	(121,499)		77,792	Increase in liability for compensated absences	(73,015)	Increase in net OPEB obligation	(14,108,132)		(91,510)
Capital outlay purchases, net of disposals	13,254,736																						
Depreciation	(9,330,077)																						
	(691,869)																						
	(2,661,959)																						
Issuance of debt	(4,976,272)																						
Repayments of debt	6,955,011																						
Deferred debt amortization	(121,499)																						
	77,792																						
Increase in liability for compensated absences	(73,015)																						
Increase in net OPEB obligation	(14,108,132)																						
	(91,510)																						
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>(13,493,735)</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

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 150,818,601	\$ 150,818,601	\$ 150,818,601	\$ -
Excise	6,318,007	6,318,007	5,867,722	(450,285)
Penalties, interest and other taxes	3,218,000	4,095,284	3,293,676	(801,608)
Charges for services	2,166,784	2,166,784	2,231,916	65,132
Intergovernmental	31,697,867	31,738,886	30,972,799	(766,087)
Licenses and permits	2,500,250	2,500,250	2,723,946	223,696
Fines and forfeitures	552,700	552,700	566,958	14,258
Interest earnings	309,415	309,415	101,547	(207,868)
Miscellaneous	294,339	329,339	747,652	418,313
Transfers in	2,777,179	2,877,428	2,877,428	-
Other sources	1,717,708	1,717,708	1,717,708	-
Total Revenues and Other Sources	202,370,850	203,424,402	201,919,953	(1,504,449)
<b>Expenditures and Other Uses:</b>				
General government	7,374,415	7,429,916	6,682,013	747,903
Public safety	24,469,431	24,510,528	23,341,710	1,168,818
Education	95,041,554	95,041,554	95,022,848	18,706
Public works	10,380,314	10,380,314	11,294,409	(914,095)
Human services	1,147,853	1,155,325	1,110,093	45,232
Culture and recreation	5,260,309	5,297,507	5,252,423	45,084
Employee benefits	44,885,550	44,556,550	44,420,872	135,678
Debt service	8,401,797	8,765,797	8,723,176	42,621
Intergovernmental	3,723,611	3,723,611	3,487,214	236,397
Transfers out	-	877,284	877,284	-
Other uses	1,686,016	1,686,016	1,686,016	-
Total Expenditures and Other Uses	202,370,850	203,424,402	201,898,058	1,526,344
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 21,895	\$ 21,895

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
<b><u>ASSETS</u></b>				
Current:				
Cash and short-term investments	\$ 6,777,377	\$ 4,992,150	\$ 11,769,527	\$ 5,710,214
User fees, net of allowance for uncollectibles	5,992,343	5,893,977	11,886,320	-
Intergovernmental	-	50,013,964	50,013,964	-
Assessments	93,838	-	93,838	-
Other assets	22,910	-	22,910	25,661
Total current assets	12,886,468	60,900,091	73,786,559	5,735,875
Noncurrent:				
Intergovernmental	-	1,392,464	1,392,464	-
Assessments	1,295,698	-	1,295,698	-
Other assets	68,728	-	68,728	-
Land and construction in progress	18,632,809	13,481,099	32,113,908	-
Other capital assets, net of accumulated depreciation	39,231,726	42,224,773	81,456,499	-
Total noncurrent assets	59,228,961	57,098,336	116,327,297	-
<b>TOTAL ASSETS</b>	<b>72,115,429</b>	<b>117,998,427</b>	<b>190,113,856</b>	<b>5,735,875</b>
<b><u>LIABILITIES</u></b>				
Current:				
Warrants payable	1,323,973	3,878,346	5,202,319	3,006
Accounts payable	76,247	66,780	143,027	-
Retainage payable	-	204,090	204,090	-
Accrued liabilities	145,262	281,696	426,958	5,301,398
Notes payable	17,691,750	62,070,807	79,762,557	-
Current portion of long-term liabilities:				
Bonds payable	1,649,609	1,109,578	2,759,187	-
Compensated absences	65,735	49,782	115,517	-
Other liabilities	-	16,208	16,208	-
Total current liabilities	20,952,576	67,677,287	88,629,863	5,304,404
Noncurrent:				
Bonds payable	14,917,312	15,562,682	30,479,994	-
Net OPEB obligation	876,256	683,674	1,559,930	-
Compensated absences	4,064	5,486	9,550	-
Other liabilities	-	48,623	48,623	-
Total noncurrent liabilities	15,797,632	16,300,465	32,098,097	-
<b>TOTAL LIABILITIES</b>	<b>36,750,208</b>	<b>83,977,752</b>	<b>120,727,960</b>	<b>5,304,404</b>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	25,171,347	20,063,737	45,235,084	-
Unrestricted	10,193,874	13,956,938	24,150,812	431,471
<b>TOTAL NET ASSETS</b>	<b>\$ 35,365,221</b>	<b>\$ 34,020,675</b>	<b>\$ 69,385,896</b>	<b>\$ 431,471</b>

See notes to financial statements.

## TOWN OF FRAMINGHAM, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<b>Operating Revenues:</b>				
Charges for services	\$ 15,106,098	\$ 15,201,720	\$ 30,307,818	\$ 43,694,256
Other	<u>132,505</u>	<u>109,208</u>	<u>241,713</u>	<u>-</u>
Total Operating Revenues	15,238,603	15,310,928	30,549,531	43,694,256
<b>Operating Expenses:</b>				
Salaries and wages	2,768,046	2,468,132	5,236,178	-
Operating expenses	1,037,326	1,332,145	2,369,471	43,970,858
Depreciation	1,312,840	1,459,811	2,772,651	-
Intergovernmental	6,553,422	9,517,520	16,070,942	-
Other	<u>22,910</u>	<u>-</u>	<u>22,910</u>	<u>-</u>
Total Operating Expenses	<u>11,694,544</u>	<u>14,777,608</u>	<u>26,472,152</u>	<u>43,970,858</u>
Operating Income (Loss)	3,544,059	533,320	4,077,379	(276,602)
<b>Nonoperating Revenues (Expenses):</b>				
Investment income	2,916	2,684	5,600	185,092
Interest expense	(466,879)	(585,748)	(1,052,627)	-
Other nonoperating income	<u>468,378</u>	<u>178,950</u>	<u>647,328</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>4,415</u>	<u>(404,114)</u>	<u>(399,699)</u>	<u>185,092</u>
Income (Loss) Before Capital Contributions and Transfers	3,548,474	129,206	3,677,680	(91,510)
Capital contributions	-	7,749,600	7,749,600	-
Transfers in	10,500	40,000	50,500	-
Transfers out	<u>(1,332,109)</u>	<u>(1,238,377)</u>	<u>(2,570,486)</u>	<u>-</u>
Change in Net Assets	2,226,865	6,680,429	8,907,294	(91,510)
Net Assets at Beginning of Year	<u>33,138,356</u>	<u>27,340,246</u>	<u>60,478,602</u>	<u>522,981</u>
Net Assets at End of Year	<u>\$ 35,365,221</u>	<u>\$ 34,020,675</u>	<u>\$ 69,385,896</u>	<u>\$ 431,471</u>

See notes to financial statements.

## TOWN OF FRAMINGHAM, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<b><u>Cash Flows From Operating Activities:</u></b>				
Receipts from customers and users	\$ 15,076,395	\$ 14,715,718	\$ 29,792,113	\$ 43,668,595
Payments to vendors	(8,023,021)	(9,288,672)	(17,311,693)	(44,640,883)
Payments to employees	<u>(2,457,300)</u>	<u>(2,103,842)</u>	<u>(4,561,142)</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	4,596,074	3,323,204	7,919,278	(972,288)
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>				
Transfers in	10,500	40,000	50,500	-
Transfer out	(1,332,109)	(1,238,377)	(2,570,486)	-
Other nonoperating income	<u>468,378</u>	<u>178,950</u>	<u>647,328</u>	<u>-</u>
Net Cash Provided by (Used For) Noncapital Financing Activities	(853,231)	(1,019,427)	(1,872,658)	-
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>				
Proceeds from issuance of bonds and notes	24,932,050	16,142,471	41,074,521	-
Acquisition and construction of capital assets	(17,335,596)	(19,575,230)	(36,910,826)	-
Principal payments on bonds and notes	(11,811,928)	(8,715,965)	(20,527,893)	-
Interest expense	(456,008)	(536,567)	(992,575)	-
Capital contributions	<u>-</u>	<u>4,109,014</u>	<u>4,109,014</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(4,671,482)	(8,576,277)	(13,247,759)	-
<b><u>Cash Flows From Investing Activities:</u></b>				
Investment income	<u>2,916</u>	<u>2,684</u>	<u>5,600</u>	<u>185,092</u>
Net Change in Cash and Short-Term Investments	(925,723)	(6,269,816)	(7,195,539)	(787,196)
Cash and Short-Term Investments, Beginning of Year	<u>7,703,100</u>	<u>11,261,966</u>	<u>18,965,066</u>	<u>6,497,410</u>
Cash and Short-Term Investments, End of Year	<u>\$ 6,777,377</u>	<u>\$ 4,992,150</u>	<u>\$ 11,769,527</u>	<u>\$ 5,710,214</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u></b>				
Operating income (loss)	\$ 3,544,059	\$ 533,320	\$ 4,077,379	\$ (276,602)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,312,840	1,459,811	2,772,651	-
Changes in assets and liabilities:				
User fees	(263,197)	(595,210)	(858,407)	-
Assessments	100,989	-	100,989	-
Other assets	22,910	-	22,910	(25,661)
Warrants payable	(465,605)	1,349,985	884,380	(59,750)
Accounts payable	33,332	23,126	56,458	-
Retainage payable	-	204,090	204,090	-
Accrued liabilities	3,496	33,924	37,420	(610,275)
Compensated absences	(26,438)	11,735	(14,703)	-
Net OPEB obligation	333,688	318,631	652,319	-
Other liabilities	<u>-</u>	<u>(16,208)</u>	<u>(16,208)</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 4,596,074</u>	<u>\$ 3,323,204</u>	<u>\$ 7,919,278</u>	<u>\$ (972,288)</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2010

	Pension Trust Fund (as of <u>December 31, 2009</u> )	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 1,134,772	\$ 4,577,339
Investments	<u>173,610,238</u>	<u>-</u>
Total Assets	174,745,010	4,577,339
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Warrants payable	-	7,459
Accounts payable	900	-
Deferred revenue	5,110,000	-
Other liabilities	<u>-</u>	<u>4,569,880</u>
Total Liabilities	<u>5,110,900</u>	<u>4,577,339</u>
Total Net Assets Held in Trust For Pension Benefits	<u><u>\$ 169,634,110</u></u>	<u><u>\$ -</u></u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010

	Pension Trust Fund (as of <u>December 31, 2009</u> )
<b>Additions:</b>	
Contributions:	
Employers	\$ 9,905,000
Plan members	5,441,228
Reimbursements from federal grants	74,884
Reimbursements from Commonwealth of Massachusetts	400,665
Reimbursements from other systems	<u>410,033</u>
Total contributions	16,231,810
Investment Income:	
Increase in fair value of investments	26,073,376
Less: management fees	<u>(908,778)</u>
Net investment income	<u>25,164,598</u>
Total additions	41,396,408
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	16,338,564
Reimbursements to other systems	565,025
Refunds and transfers of plan member accounts to other systems	1,179,485
Administrative expenses	<u>280,842</u>
Total deductions	<u>18,363,916</u>
Net increase	23,032,492
<b>Net assets held in trust for pension benefits:</b>	
Beginning of Year	<u>146,601,618</u>
End of Year	<u><u>\$ 169,634,110</u></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 is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

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

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

#### Government-Wide Financial Statements

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

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

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 *municipal buildings fund* is used to account for revenues/other financing sources and costs associated with constructing and renovating municipal buildings.

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

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

The government reports the following major proprietary funds:

- 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.

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.

The *agency fund* is custodial in nature and is used to account for funds held for others. Agency funds report only assets and liabilities, and thus have no measurement focus.

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

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type was 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 ½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy

limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 167,728.

**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 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
Infrastructure	50 - 75
Vehicles	5 - 10
Machinery, equipment and furnishings	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 Chief Financial Officer 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>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 217,774,138	\$ 218,502,450
Other financing sources/uses (GAAP basis)	<u>2,902,135</u>	<u>887,784</u>
Subtotal (GAAP Basis)	220,676,273	219,390,234

(continued)

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Adjust tax revenue to accrual basis	(1,810,493)	-
Reverse expenditures of prior year carryforwards	-	(1,533,382)
Add end of year appropriation carryforwards to expenditures	-	1,365,597
To reverse the effect of non- budgeted State contributions for teachers retirement	(18,645,932)	(18,645,932)
To reverse non-budgeted activity	(17,603)	(358,780)
To reverse change in accrued interest	-	(5,695)
Teachers' deferral	198,956	397,914
Recognize other sources and uses	<u>1,518,752</u>	<u>1,288,102</u>
Budgetary basis	<u>\$ 201,919,953</u>	<u>\$ 201,898,058</u>

**D. Excess of Expenditures Over Appropriations**

Expenditures exceeding appropriations during the current fiscal year were as follows:

Snow and ice	\$ (1,145,895)
--------------	----------------

**E. Deficit Fund Equity**

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

Major governmental funds:	
Municipal Buildings	\$ (7,531,238)
Nonmajor governmental funds:	
Capital project funds:	
Brick Wall Fuller MS	\$ (649)
Fire HQ Drainage Repair	(20,238)
IP Phone & Security	(747,163)
ADA Multiple Bldg & Sch	(80,745)
DDC Energy Conservation 1	(3,648)
DDC Energy Conservation 2	(188,259)

(continued)

(continued)

ADA Upgrades	(82,930)
Senior Center	(63,338)
Web Content Mgt System	(67,869)
Permits License Insp	(299,229)
Wireless Access Pub Safety	(216,036)
Radio Communications	(217,292)
Comm Upgrade Fram HS	(27,854)
GVW Dump	(42,657)
Mech Rprs Loader	(40,800)
Network Infrastrucure	(114,847)
Special revenue funds:	
Community Development Block Grant	\$ (74,550)
W. Wilson Weight & Eating	(387)
NIN/NEVUS Study	(10,311)
West Metro HOME Consortium	(47,071)
Dept Housing Community Service	(37,449)
Public Health Emergency Response	(11,438)
Epa Brownfields Grant	(32,603)
Mass Executive Office Public Safety	(101,591)
Mass Highway Utility Force	(2,589)
Mass Highway Funds	(11,631)
Chapter 90 Highway	(65,416)
Lo-MW Brophy Health & Wellness	(19)

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

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

*Custodial Credit Risk* - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town's deposit policy for custodial credit risk is to limit unsecured bank deposits to no more than 5% of the institution's assets and no more than 10% of the municipality's cash.

Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The System does not have a deposit policy for custodial credit risk.

As of June 30, 2010 and December 31, 2009, \$ 12,992,430 and \$ 881,482 of the Town's and System's bank balances of \$ 47,305,028 and \$ 1,728,333 respectively, was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the Town's and System's name.

Of the Town's balance exposed to custodial credit risk, \$ 12,419,959 is on deposit with Massachusetts Municipal Depository Trust.

Of the System's balance exposed to custodial credit risk, \$ 825,406 is on deposit with the Pension Reserve Investment Trust and \$ 56,076 is on deposit with Massachusetts Municipal Depository Trust.

#### 4. Investments

##### A. Credit Risk

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

Presented below (in thousands) are the Town's investments at June 30, 2010, and, where applicable, the average credit rating of the fixed income securities (All federal agency securities have an implied credit rating of AAA):

<u>Investment Type</u>	Fair <u>Value</u>	Rating as of Year End					Not <u>Rated</u>
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BB</u>		
Corporate stocks	\$ 1,003	\$ -	\$ -	\$ -	\$ -	\$ 1,003	
Corporate bonds	981	-	426	432	123	-	
Certificate of deposit	4,298	-	-	-	-	4,298	
Mutual funds	844	-	-	-	-	844	
Federal agency securities	<u>5,859</u>	<u>5,859</u>	-	-	-	-	
Total investments	<u>\$ 12,985</u>	<u>\$ 5,859</u>	<u>\$ 426</u>	<u>\$ 432</u>	<u>\$ 123</u>	<u>\$ 6,145</u>	

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

At December 31, 2009, the Contributory Retirement System maintained its investments in the State Investment Pool\* with a fair value of \$ 173,610,238. This investment type is not rated.

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

**B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town's policy for custodial credit risk is to limit investments to the state investment pool, U.S. Treasury obligations, U.S. Agency obligations, and certificates of deposit. The System does not have policies for custodial credit risk.

The Town's investments of \$ 12,985,386 were exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

The System's investments of \$ 173,610,238 were exposed to custodial credit risk as uninsured and uncollateralized. However, these investments were held in the State Investment Pool.

**C. Concentration of Credit Risk**

The Town's policy for concentration of credit risk is to limit investments in a single financial institution to no more than 10% of the Town's investments with the exception of U.S. Treasury obligations of investments fully collateralized by U.S. Treasuries or agencies, and state pools.

Town investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

Federal Home Loan Bank	\$ 654,948
Federal Home Loan Mortgage Corporation	1,542,946
Federal National Mortgage Association	3,361,408

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

The Contributory Retirement System does not have an investment in one issuer greater than 5% of total investments.

***D. Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town's policy for interest rate risk is to structure the portfolio so securities mature to meet all operating requirements that may be reasonably anticipated, thus avoiding the need to sell securities on the open market prior to maturity. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Corporate bonds	\$ 981	\$ 123	\$ 858	\$ -
Certificate of deposit	4,298	771	3,527	-
Federal agency securities	5,859	150	3,213	2,496
Total	<u>\$ 11,138</u>	<u>\$ 1,044</u>	<u>\$ 7,598</u>	<u>\$ 2,496</u>

The Retirement system does not maintain investments that are sensitive to market interest rate fluctuations.

***E. Foreign Currency Risk***

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town and System do not have policies for foreign currency risk.

**5. Taxes Receivable**

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2010 consist of the following (in thousands):

Real Estate		
2010	\$ 2,179	
2009	41	
2008	39	
Prior	<u>40</u>	
		2,299
Personal Property		
2010	73	
2009	41	
2008	37	
Prior	<u>239</u>	
		390
Tax Liens		1,902
Deferred Taxes		353
Tax Foreclosures		<u>574</u>
Total		\$ <u><u>5,518</u></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	\$ 1,414	\$ -
Excises	1,157	-
Utilities	-	128

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010, as well as funding to be provided by the Massachusetts School Building Authority for reimbursement of approved school capital project expenditures.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 173,650	\$ 4,219	\$ -	\$ 177,869
Vehicles, machinery, equipment and furnishings	31,508	3,183	-	34,691
Infrastructure	<u>41,334</u>	<u>1,168</u>	<u>-</u>	<u>42,502</u>
Total capital assets, being depreciated	246,492	8,570	-	255,062
Less accumulated depreciation for:				
Buildings and improvements	(50,475)	(5,156)	-	(55,631)
Vehicles, machinery, equipment and furnishings	(19,985)	(3,081)	-	(23,066)
Infrastructure	<u>(15,479)</u>	<u>(1,093)</u>	<u>-</u>	<u>(16,572)</u>
Total accumulated depreciation	<u>(85,939)</u>	<u>(9,330)</u>	<u>-</u>	<u>(95,269)</u>
Total capital assets, being depreciated, net	160,553	(760)	-	159,793
Capital assets, not being depreciated:				
Land	18,521	-	-	18,521
Construction in progress	<u>2,170</u>	<u>5,553</u>	<u>(868)</u>	<u>6,855</u>
Total capital assets, not being depreciated	<u>20,691</u>	<u>5,553</u>	<u>(868)</u>	<u>25,376</u>
Governmental activities capital assets, net	<u>\$ 181,244</u>	<u>\$ 4,793</u>	<u>\$ (868)</u>	<u>\$ 185,169</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 6,095	\$ 11,808	\$ (11)	\$ 17,892
Vehicles, machinery, equipment and furnishings	6,599	1,613	-	8,212
Infrastructure	<u>78,133</u>	<u>17,209</u>	<u>-</u>	<u>95,342</u>
Total capital assets, being depreciated	90,827	30,630	(11)	121,446
Less accumulated depreciation for:				
Buildings and improvements	(2,682)	(435)	-	(3,117)
Vehicles, machinery, equipment and furnishings	(3,808)	(739)	-	(4,547)
Infrastructure	<u>(30,727)</u>	<u>(1,599)</u>	<u>-</u>	<u>(32,326)</u>
Total accumulated depreciation	<u>(37,217)</u>	<u>(2,773)</u>	<u>-</u>	<u>(39,990)</u>
Total capital assets, being depreciated, net	53,610	27,857	(11)	81,456
Capital assets, not being depreciated:				
Land	320	788	-	1,108
Construction in progress	<u>25,502</u>	<u>17,977</u>	<u>(12,473)</u>	<u>31,006</u>
Total capital assets, not being depreciated	<u>25,822</u>	<u>18,765</u>	<u>(12,473)</u>	<u>32,114</u>
Business-Type activities capital assets, net	<u>\$ 79,432</u>	<u>\$ 46,622</u>	<u>\$ (12,484)</u>	<u>\$ 113,570</u>

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

<b>Governmental Activities:</b>	
General government	\$ 975
Public safety	1,208
Education	4,123
Public works	2,087
Health and human services	112
Culture and recreation	<u>825</u>
Total depreciation expense - governmental activities	<u>\$ 9,330</u>
<b>Business-Type Activities:</b>	
Water	\$ 1,313
Sewer	<u>1,460</u>
Total depreciation expense - business-type activities	<u>\$ 2,773</u>

**9. Warrants and Accounts Payable**

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

**10. Deferred Revenue**

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

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2010 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. Anticipation Notes Payable**

The Town had the following notes outstanding at June 30, 2010:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/10
State revolving loan	0.37%	01/15/10	12/31/11	\$ 1,856,829
State revolving loan	0.25%	01/15/10	12/31/11	38,066,137
State revolving loan	0.28%	01/15/10	12/31/11	1,982,809
State revolving loan	0.28%	04/01/10	12/31/11	1,936,665
State revolving loan	0.28%	04/01/10	12/31/11	280,054
State revolving loan	0.25%	06/01/10	12/31/11	6,085,386
Bond anticipation	1.50%	06/18/10	06/17/11	<u>40,944,773</u>
Total				<u>\$ 91,152,653</u>

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

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 2,545,000	\$ -	\$ (2,545,000)	\$ -
Bond anticipation	22,276,076	-	(22,276,076)	-
Bond anticipation	-	2,545,000	(2,545,000)	-
Bond anticipation	-	385,000	(385,000)	-
State revolving loan	-	1,856,829	-	1,856,829
State revolving loan	-	38,066,137	-	38,066,137
State revolving loan	-	1,982,809	-	1,982,809
State revolving loan	-	1,936,665	-	1,936,665
State revolving loan	-	280,054	-	280,054
State revolving loan	-	6,085,386	-	6,085,386
Bond anticipation	-	40,944,773	-	40,944,773
Total	\$ <u>24,821,076</u>	\$ <u>94,082,653</u>	\$ <u>(27,751,076)</u>	\$ <u>91,152,653</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 6/30/10
<u>Governmental Activities:</u>			
General obligation	03/25	3.79	\$ 2,250,000
General obligation	03/24	3.79	1,195,000
General obligation	03/12	3.83	390,000
General obligation	08/14	4.00	4,225,000
General obligation	03/24	3.79	1,030,000
General obligation	02/19	4.34	9,147,500
General obligation	03/13	3.00	215,000
General obligation	11/23	0.00	340,300
General obligation	03/20	5.51	9,176,500
General obligation	03/24	3.00	985,000

(continued)

(continued)

	Serial Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding as of <u>6/30/10</u>
<u>Governmental Activities (continued):</u>			
General obligation	03/15	3.00	2,354,422
General obligation	06/26	4.08	1,432,000
General obligation	11/27	3.84	4,280,000
General obligation	07/27	2.00	273,453
General obligation	06/24	3.00	6,618,000
General obligation	06/30	3.53	4,976,272
Total Governmental			<u>\$ 48,888,447</u>

	Serial Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding as of <u>6/30/10</u>
<u>Business-Type Activities:</u>			
Water (MWRA)	03/13	3.00	\$ 270,000
Sewer	03/25	3.79	475,000
Water	03/12	3.83	30,000
Water (MWRA)	03/20	5.51	86,818
Sewer	03/12	3.83	40,000
Water (MWRA)	05/12	0.00	173,636
Sewer (MWRA)	06/15	2.54	145,137
Water	03/24	3.00	2,610,000
Sewer	03/12	3.00	10,000
Sewer (MWPAT)	03/24	0.00	237,251
Sewer	03/15	3.00	223,371
Water	03/15	3.00	302,207
Water	03/25	3.79	1,250,000
Water (MWRA)	02/15	0.00	724,500
Water (MWRA)	02/16	0.00	1,199,460
Sewer (MWRA)	11/10	0.00	46,420
Water	06/26	4.08	2,053,000
Sewer	06/26	4.08	1,015,000
Sewer	11/27	3.84	2,715,000
Water	11/27	3.84	455,000

(continued)

(continued)

	Serial Maturities <u>Through</u>	Interest Rate(s)% <u>Rate(s)%</u>	Amount Outstanding as of <u>6/30/10</u>
<u>Business-Type Activities:</u>			
Sewer	07/27	2.00	8,420,071
Sewer (MWPAT)	07/28	2.00	453,911
Sewer (MWPAT)	07/28	2.00	2,051,671
Water	06/24	3.00	172,000
Sewer	06/24	3.00	15,000
Water	06/30	3.53	7,240,300
Sewer	06/30	3.53	824,428
Total Business-Type			<u>\$ 33,239,181</u>

**B. Future Debt Service**

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 6,696,797	\$ 1,627,186	\$ 8,323,983
2012	6,196,938	1,422,294	7,619,232
2013	5,766,590	1,233,364	6,999,954
2014	5,082,915	1,043,828	6,126,743
2015	4,657,121	873,136	5,530,257
2016-2020	14,956,350	2,520,469	17,476,819
2021-2025	4,336,062	695,911	5,031,973
2026-2030	1,195,674	102,053	1,297,727
Total	<u>\$ 48,888,447</u>	<u>\$ 9,518,241</u>	<u>\$ 58,406,688</u>

The general fund has been designated as the source to repay the governmental-type general obligation debt outstanding as of June 30, 2010.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,759,187	\$ 979,816	\$ 3,739,003
2012	2,618,727	913,049	3,531,776
2013	2,471,677	852,487	3,324,164
2014	2,385,991	787,338	3,173,329
2015	2,356,954	718,970	3,075,924
2016-2020	8,634,880	2,685,203	11,320,083
2021-2025	7,723,481	1,308,745	9,032,226
2026-2030	4,288,284	282,269	4,570,553
Total	\$ <u>33,239,181</u>	\$ <u>8,527,877</u>	\$ <u>41,767,058</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2010 are as follows:

<u>Purpose</u>	<u>Amount</u>
High School Prog	\$ 906,084
Wastewater Pump	4,129,800
Herbert St Sewer	776,259
Bowditch Mstr Plan	2,900,000
Schl Security Camera	690,000
Grove St Water Pump Stn	2,869,836
Water St Main	2,822,150
Prospect St Wtr Main	1,100,000
N Concord St Wtr Design	600,000
North Fram Pump Stn	792,500
Cove Area Swr Main Replacement	553,750
Prospect St A Swr Replacement	1,148,906
Concord St Purchase	1,750,000
Birch Rd Well	38,737,900
Concord St Wtr Main	700,000
Coburn St Wtr Main	1,490,000
East Fram Sewer Proj	2,340,963
Concord St Sewer Main	980,000
Lakeview	1,600,000
Coburn St	2,000,000
Tech Park Water Improvements	4,600,000
Tech Park Grant	3,100,000
Central St Siphon	1,914,614
Tech Park I & I Removal	1,500,000
Recycling Bins	823,500

(continued)

(continued)

<u>Purpose</u>	<u>Amount</u>
Roadway Improvements	900,000
IP Phones & Security Syst	550,000
Barbieri Elem School Improvements	550,000
Memorial/Maynard Bldg Improvements	896,800
N Concord St Wtr Main Replacement	9,242,735
Grant/Pond St Wtr Main	6,263,000
Goodnow Wtr Pump Station	1,385,000
Grant/Pond St Sewer Replacement	6,503,010
Sewer Syst Evaluation	500,000
Other (72 individual projects)	<u>11,057,185</u>
Total	<u>\$ 118,673,992</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 and unaudited):

<u>Related Entity</u>	<u>Principal</u>		<u>Town's Estimated Share</u>
MWRA - Water	\$ 1,950,750	2.01%	\$ 39,210
MWRA - Sewer	3,867,095	1.57%	<u>60,713</u>
			<u>\$ 99,923</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, 2010 (in thousands):

Equalized valuation - January 31, 2010		\$ <u>8,446,853</u>
Debt limit - 5% of equalized valuation		\$ 422,343
Total debt outstanding	82,128	
Less: debt exempt from limit	<u>(36,310)</u>	<u>45,818</u>
Legal Debt Margin		<u>\$ 376,525 *</u>

\* Excludes bond anticipation notes and authorized but unissued debt.

**F. Advance and Current Refundings**

**Prior Years**

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuances of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature on March 15, 2015, February 1, 2019, and March 1, 2020. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet.

As of June 30, 2010, the total amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$ 24,295,000.

**G. Changes in General Long-Term Liabilities**

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

	Total Balance <u>7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/10</u>	Less Current Portion <u>6/30/10</u>	Equals Long-Term Portion <u>6/30/10</u>
<b><u>Governmental Activities</u></b>						
Bonds payable	\$ 50,867	\$ 4,977	\$ (6,955)	\$ 48,889	\$ (6,697)	\$ 42,192
Net OPEB obligation	27,458	14,108	-	41,566	-	41,566
Accrued employee benefits	<u>2,639</u>	<u>210</u>	<u>(137)</u>	<u>2,712</u>	<u>(1,924)</u>	<u>788</u>
Totals	\$ <u>80,964</u>	\$ <u>19,295</u>	\$ <u>(7,092)</u>	\$ <u>93,167</u>	\$ <u>(8,621)</u>	\$ <u>84,546</u>

	Total Balance <u>7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/10</u>	Less Current Portion <u>6/30/10</u>	Equals Long-Term Portion <u>6/30/10</u>
<b><u>Business-Type Activities</u></b>						
Bonds payable	\$ 27,782	\$ 8,085	\$ (2,628)	\$ 33,239	\$ (2,759)	\$ 30,480
Net OPEB obligation	908	652	-	1,560	-	1,560
Accrued employee benefits	140	12	(27)	125	(116)	9
Other liabilities	<u>81</u>	<u>-</u>	<u>(16)</u>	<u>65</u>	<u>(16)</u>	<u>49</u>
Totals	\$ <u>28,911</u>	\$ <u>8,749</u>	\$ <u>(2,671)</u>	\$ <u>34,989</u>	\$ <u>(2,891)</u>	\$ <u>32,098</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 and Designations 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. Fund “designations,” which are not legally required segregations, have also been established to indicate tentative plans for future financial utilization.

The following types of reserves are reported at June 30, 2010:

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

Reserved for 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.

Unreserved Designated - Represents the amount of fund balance designated for petty cash, inventory, and future debt service.

#### **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 overexpend 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 budgetary basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 3,166,347
Teacher pay deferral	198,956
Tax refund estimate	<u>4,451,273</u>
Statutory (UMAS) Balance	<u>\$ 7,816,576</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**

### **Other Post-Employment Benefits**

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on

an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

*A. Plan Description*

In addition to providing the pension benefits described, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2008, the actuarial valuation date, approximately 1,538 retirees and 1,895 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

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

*C. Funding Policy*

Retirees contribute various percentages of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2010 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2008.

Annual Required Contribution (ARC)	\$ 27,798,877
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost	27,798,877
Contributions made	<u>(13,038,426)</u>
	<hr/>
Increase in net OPEB obligation	14,760,451
Net OPEB obligation - beginning of year	<u>28,365,978</u>
Net OPEB obligation - end of year	<u><u>\$ 43,126,429</u></u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 27,798,877	46.9%	\$ 43,126,429
2009	\$ 26,539,476	45.9%	\$ 28,365,978
2008	\$ 25,839,476	45.8%	\$ 14,007,989

*E. Funded Status and Funding Progress*

The funded status of the plan as of July 1, 2008, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 389,842,640
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 389,842,640</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ 97,125,409</u></u>
UAAL as a percentage of covered payroll	<u><u>401%</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial

value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Actuarial Methods and Assumptions*

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

In the July 1, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 7% which decreases to a 5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

**19. Contributory Retirement System**

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

*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, 2009:

Retirees and beneficiaries receiving benefits	773
Terminated plan members entitled to but not yet receiving benefits	253
Active plan members	<u>1,085</u>
Total	<u><u>2,111</u></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). The Town's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions (Town Share only):

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2001	\$ 6,023,613	100%
2002	\$ 6,521,400	100%
2003	\$ 6,796,400	100%
2004	\$ 6,994,318	100%
2005	\$ 7,399,266	100%
2006	\$ 7,755,370	100%
2007	\$ 8,166,783	100%
2008	\$ 8,841,122	100%
2009	\$ 9,303,259	100%
2010	\$ 9,869,454	100%

**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 at fair value in accordance with PERAC requirements.

**C. Funded Status and Funding Progress**

The information presented below is from the Framingham Contributory Retirement System's most recent valuation (in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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]
01/01/10	\$ 192,219	\$ 283,867	\$ 91,648	67.7%	\$ 53,311	172%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

**D. Actuarial Methods and Assumptions**

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 91.6 million was calculated. The actuarial assumptions included (a) 8 % investment rate of return and (b) a projected salary increase of 4.75 - 5.25 % per year. Liabilities for cost of living increases have been assumed at an annual increase of 3 %, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8 %) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2009, the unfunded actuarially accrued liability is being amortized over 20 years using a 4.00 % annual increasing basis.

**E. Teachers**

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth

of Massachusetts. The Town is not required to contribute. All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

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

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

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

The Town's current year covered payroll for teachers and administrators was unavailable.

In fiscal year 2010, the Commonwealth of Massachusetts contributed \$ 18,645,932 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, 2010 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year, as restated	\$ 5,911,673
Claims incurred/recognized in fiscal year 2010	43,970,858
Claims paid in fiscal year 2010	<u>(44,581,133)</u>
Claims liability, end of year	<u>\$ 5,301,398</u>

## 21. Risk Management

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

## 22. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2010, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/09 (as previously <u>reported</u> )	<u>Reclassification</u>	Fund Equity 6/30/09 (as restated)
Nonmajor funds	\$ 8,857,244	\$ 1,647,484	\$ 10,504,728
Municipal Buildings fund	<u>-</u>	<u>(1,647,484)</u>	<u>(1,647,484)</u>
Total	<u>\$ 8,857,244</u>	<u>\$ -</u>	<u>\$ 8,857,244</u>

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

June 30, 2010

(Unaudited)

(Amounts Expressed in thousands)

**Employees' Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/91	\$ 40,645	\$ 92,433	\$ 51,788	44.0%	\$ 27,351	189%
01/01/95	\$ 62,360	\$ 122,220	\$ 59,860	51.0%	\$ 29,168	205%
01/01/98	\$ 105,941	\$ 156,983	\$ 51,042	67.5%	\$ 33,120	154%
01/01/00	\$ 147,572	\$ 181,149	\$ 33,577	81.5%	\$ 39,871	84%
01/01/02	\$ 142,893	\$ 206,810	\$ 63,917	69.1%	\$ 42,132	152%
01/01/04	\$ 148,125	\$ 220,001	\$ 71,876	67.3%	\$ 41,233	174%
01/01/06	\$ 157,611	\$ 241,752	\$ 84,141	65.2%	\$ 45,439	185%
01/01/08	\$ 197,875	\$ 262,770	\$ 64,895	75.3%	\$ 48,878	133%
01/01/10	\$ 192,219	\$ 283,867	\$ 91,648	67.7%	\$ 53,311	172%

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 389,843	\$ 389,843	0.0%	\$ 97,125	401%

See Independent Auditors' Report.