

**TOWN OF  
FRAMINGHAM, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2012**

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# MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

## 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, 2012, (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2011) 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, 2012, (except the Framingham Contributory Retirement System which is as of December 31, 2011), 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.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated April 17, 2013 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  
April 17, 2013

## **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, 2012. Unless otherwise noted, all amounts reported in this analysis are expressed in thousands.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements 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 our 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 is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include 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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

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

**Proprietary funds.** Proprietary funds are maintained as follows:

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

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health programs. Because these services predominantly benefit 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 business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds.

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

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$191,305 (i.e., net assets), a change of \$(7,587) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$23,818, a change of \$(1,230) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,747, a change of \$2,486 in comparison to the prior year, while committed fund balance was \$9,332, a change of \$1,643 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$136,226, a change of \$8,827 in comparison to the prior year. The Town also had \$50,721 in bond anticipation notes outstanding at year-end.

## **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).

**NET ASSETS**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 84,529	\$ 82,772	\$ 36,634	\$ 65,943	\$ 121,163	\$ 148,715
Capital assets	189,713	188,430	178,289	147,753	368,002	336,183
Total assets	274,242	271,202	214,923	213,696	489,165	484,898
Long-term liabilities outstanding	125,554	118,613	88,864	71,096	214,418	189,709
Notes payable	9,889	2,522	40,832	58,549	50,721	61,071
Other liabilities	27,121	28,586	5,600	6,640	32,721	35,226
Total liabilities	162,564	149,721	135,296	136,285	297,860	286,006
Net assets:						
Invested in capital assets, net of related debt	129,564	127,781	55,089	47,664	184,653	175,445
Restricted	12,304	11,600	-	-	12,304	11,600
Unrestricted	(30,190)	(17,900)	24,538	29,747	(5,652)	11,847
Total net assets	\$ 111,678	\$ 121,481	\$ 79,627	\$ 77,411	\$ 191,305	\$ 198,892

**CHANGES IN NET ASSETS**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 27,339	\$ 26,782	\$ 34,865	\$ 32,697	\$ 62,204	\$ 59,479
Operating grants and contributions	60,318	55,157	-	-	60,318	55,157
Capital grants and contributions	2,162	3,691	5,057	8,749	7,219	12,440
General revenues:						
Property taxes	161,607	155,536	-	-	161,607	155,536
Excises	6,319	6,169	-	-	6,319	6,169
Penalties, interest and other taxes	4,297	4,013	-	-	4,297	4,013
Grants and contributions not restricted to specific programs	8,210	8,801	-	-	8,210	8,801
Investment income	458	812	8	5	466	817
Miscellaneous	489	1,398	192	158	681	1,556
Total revenues	271,199	262,359	40,122	41,609	311,321	303,968

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
	Expenses:					
General government	9,992	9,997	-	-	9,992	9,997
Public safety	33,433	31,355	-	-	33,433	31,355
Education	152,121	146,137	-	-	152,121	146,137
Public works	13,333	14,669	-	-	13,333	14,669
Human services	1,789	1,507	-	-	1,789	1,507
Culture and recreation	7,479	6,959	-	-	7,479	6,959
Employee benefits	58,863	59,772	-	-	58,863	59,772
Interest	2,283	2,033	-	-	2,283	2,033
Intergovernmental	4,319	3,730	-	-	4,319	3,730
Water	-	-	15,113	13,163	15,113	13,163
Sewer	-	-	20,183	17,817	20,183	17,817
Total expenses	<u>283,612</u>	<u>276,159</u>	<u>35,296</u>	<u>30,980</u>	<u>318,908</u>	<u>307,139</u>
Change in net assets before transfers	(12,413)	(13,800)	4,826	10,629	(7,587)	(3,171)
Transfers in (out)	<u>2,610</u>	<u>2,604</u>	<u>(2,610)</u>	<u>(2,604)</u>	<u>-</u>	<u>-</u>
Change in net assets	(9,803)	(11,196)	2,216	8,025	(7,587)	(3,171)
Net assets - beginning of year	<u>121,481</u>	<u>132,677</u>	<u>77,411</u>	<u>69,386</u>	<u>198,892</u>	<u>202,063</u>
Net assets - end of year	<u>\$ 111,678</u>	<u>\$ 121,481</u>	<u>\$ 79,627</u>	<u>\$ 77,411</u>	<u>\$ 191,305</u>	<u>\$ 198,892</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$191,305, a change of \$(7,587) from the prior year.

The largest portion of net assets, \$184,653 reflects our investment in capital assets (e.g., land, construction in progress, buildings and improvements, vehicles, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$12,304 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$(5,652) may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a change in net assets of \$(9,803). Key elements of this change are as follows:

Excess of revenues over (under) expenditures:	
General fund	\$ 3,887
Internal service fund	536
General fund transfers from enterprise funds, net	<u>2,610</u>
Subtotal	7,033
Capital assets acquired with current year revenues	3,058
Depreciation in excess of debt service principal paydown	(2,146)
MSBA collections recognized in prior periods	(2,511)
Increase in net OPEB obligation	(15,062)
Other	<u>(175)</u>
Total	<u>\$ (9,803)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$2,216. Key elements of this change are as follows:

Water operations	\$ (929)
Sewer operations	<u>3,145</u> <sup>1</sup>
Total	<u>\$ 2,216</u>

<sup>1</sup> During fiscal year 2012, the Sewer fund received \$ 5,057 in ARRA and other grants.

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

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

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$23,818, a change of \$(1,230) in comparison to the prior year.

The Town implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now

reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the notes to the financial statements. Additionally, amounts previously reported in stabilization and conservation funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,747, while total fund balance was \$20,054. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 5,747	\$ 3,261	\$ 2,486	2.5%
Total fund balance	20,054	13,728	6,326	8.7%

The total fund balance of the general fund changed by \$6,326 during the current fiscal year. Key factors in this change are as follows:

<u>General Fund Highlights</u>	<u>General Fund Components</u>				
	<u>Operating</u>	<u>General Stabilization</u>	<u>Open Space Stabilization</u>	<u>Conservation</u>	<u>General Fund</u>
Use of other funding sources, net of transfers to stabilization	\$ (1,920)	\$ 1,420	\$ -	\$ -	\$ (500)
Revenues in excess of budget	2,384	-	-	-	2,384
Expenditures less than budget	2,156	-	-	-	2,156
Raising of prior year snow and ice deficit	2,020	-	-	-	2,020
Tax collections less than levy	(794)	-	-	-	(794)
Current year encumbrances in excess of expenditures of prior year encumbrances	693	-	-	-	693
Other	144	217	5	1	367
Total	\$ <u>4,683</u>	\$ <u>1,637</u>	\$ <u>5</u>	\$ <u>1</u>	\$ <u>6,326</u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
General stabilization	\$ 8,921	\$ 7,284	\$ 1,637
Open space stabilization	348	343	5
Conservation	63	62	1
Total	\$ <u>9,332</u>	\$ <u>7,689</u>	\$ <u>1,643</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$24,538. 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 \$911, due to a change in general government of \$(330), public safety of \$197, education of \$607, public works of \$19, human services of \$225, culture and recreation of \$69, employee benefits of \$(1,591), and debt service of \$1,715. The additional appropriations were funded by the tax levy and transfers from other funds.

**F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end, amounted to \$368,002 (net of accumulated depreciation), a change of \$31,819 from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, vehicles, machinery, equipment, and infrastructure.

The following is a summary of capital assets for the current year and prior fiscal year:

<u>CAPITAL ASSETS</u>						
(net of depreciation)						
June 30, 2012 and 2011						
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 18,620	\$ 18,521	\$ 1,108	\$ 1,108	\$ 19,728	\$ 19,629
Buildings and improvements	127,133	129,206	20,376	17,783	147,509	146,989
Vehicles, machinery, and equipment	13,177	12,765	3,992	4,079	17,169	16,844
Infrastructure	30,614	27,763	142,065	97,990	172,679	125,753
Construction in progress	169	175	10,748	26,793	10,917	26,968
Total	<u>\$ 189,713</u>	<u>\$ 188,430</u>	<u>\$ 178,289</u>	<u>\$ 147,753</u>	<u>\$ 368,002</u>	<u>\$ 336,183</u>

Significant capital asset activity for fiscal year 2012 included:

- Sewer Main Replacement design at Water Street and Gregory Road, appropriated for \$1,592, awarded in the fall of 2007, was completed with a cost of \$1,555. Sewer Improvements at Concord and School Street were appropriated for \$5,557 and have incurred \$1,479 of expenditures. Design for Wastewater Pumping Stations projects, appropriated for \$8,009, started in the fall of 2007, and \$6,591 has been expended. East Framingham Sewer Improvement Project Phase 1, appropriated for \$2,708, was awarded in the fall of 2007 and \$2,705 has been expended.
- At the 2008 Annual Town Meeting, the Town authorized over \$21,000 in Water Capital Projects and \$9,000 in Sewer Capital Projects. \$1,645 has been expended on Grove Street Water Pump Station appropriated for \$2,932. \$8,335 has been expended on the Water Street Water Main Construction appropriated for \$8,522. \$1,452 and \$1,629 has been expended on the Prospect Street area Water and Sewer Main Replacement appropriated for \$3,000 and \$2,783 respectfully. Work on the \$1,100 The Farm Pond Interceptor Sewer Rehabilitation Project has expended \$942 to date and the Sewer lining is complete. \$1,717 has been expended on the \$1,754 Cove Area Sewer Main Rehabilitation.
- At the 2009 Annual Town Meeting, \$40,337 was an 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. The Town has been working with the United States Geological Survey (USGS) to refine a sophisticated groundwater model. Since 2004, the Town had previously appropriated \$5,530. In total, \$6,927 has been expended 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. \$35,705 has been expended to date on Phase I.
- The Town received an additional \$1,400 of grant award from Massachusetts Life Science Center for improvements to Water and Sewer infrastructure and the Pleasant Street Pump Station in the Technology Park area for a total award of \$14,300. \$12,860 has been expended on these projects.
- At the 2010 Annual Town Meeting, \$17,967 was voted for additional Water Capital Projects. \$2,425 has been expended from the \$9,619 appropriated for North Concord Street Water Mains. \$335 has been expended from the \$6,263 appropriation for Grant and Pond Street project. The Goodnow

Pump Station authorized for \$1,385 has not started. In addition, \$7,402 was appropriated for Sewer Projects of which \$6,552 was for Sewer Lines in the Grant and Pond Street Area. \$2,228 has been expended on this project.

- At the 2011 Annual Town Meeting, \$1,700 was Authorized for Roadway Improvements for which \$1,602 has be expended, \$130 and \$128 has been expended on the \$2,680 and \$1,765 authorized for Downtown Water and Sewer Utilities; as well as \$265 expended on the \$6,310 authorized for the North Framingham. Worcester Road Pump Stations appropriated for \$1,925 had just started at year-end.
- At the 2012 Annual Town Meeting, \$2,500 was authorized for Roadway Improvements, \$1,795 for Water Improvements at intersection of Irving, Loring and Herbert St; \$3,214 for Beebe Water Storage Tanks; and \$2,400 on East Framingham Sewer Improvements and Central Street Siphon Sudbury River projects.

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

**Long-term debt.** At the end of the current fiscal year, total bonded debt and bond anticipation notes outstanding was \$186,947, 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:

<u>OUTSTANDING DEBT</u>						
General Obligation Bonds and Bond Anticipation Notes						
June 30, 2012 and 2011						
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 51,656	\$ 59,957	\$ 84,570	\$ 67,442	\$ 136,226	\$ 127,399
Bond anticipation notes	<u>9,889</u>	<u>2,522</u>	<u>40,832</u>	<u>58,549</u>	<u>50,721</u>	<u>61,071</u>
Total	<u>\$ 61,545</u>	<u>\$ 62,479</u>	<u>\$ 125,402</u>	<u>\$ 125,991</u>	<u>\$ 186,947</u>	<u>\$ 188,470</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 is \$391,791, which is significantly in excess of outstanding general obligation debt.

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

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

- The unadjusted unemployment rate for the Town of Framingham is currently 4.7% (June), which is down from the 6.0% rate from June 2011. This compares to the State's unemployment rate of 6.7% and the national rate of 8.2%.
- 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 2013 fiscal year.
- During the current fiscal year, unassigned fund balance in the general fund increased to \$5,747. In addition, the Town of Framingham has appropriated \$2,588 of "free cash" to finance the FY13 general fund operating budget and \$363 for capital equipment.
- If FY12, the Town transferred a net \$1,420 into the Stabilization fund as well as appropriating a net transfer of \$2,236 for FY13.
- The \$3,318 of "free cash" certified by the Massachusetts Department of Revenue as of July 1, 2012 is available, subject to appropriation, to finance FY13 and FY14 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, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 42,637,275	\$ 8,930,690	\$ 51,567,965
Investments	14,480,985	-	14,480,985
Receivables, net of allowance for uncollectibles:			
Property taxes	1,701,340	-	1,701,340
Motor vehicle excise	807,255	-	807,255
User fees	385,529	12,035,326	12,420,855
Departmental and other	142,650	-	142,650
Intergovernmental	5,842,201	13,295,337	19,137,538
Assessments	-	83,489	83,489
Other assets	183,547	22,909	206,456
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax title	2,557,808	-	2,557,808
Departmental and other	382,590	-	382,590
Intergovernmental	14,847,645	1,261,324	16,108,969
Assessments	-	981,862	981,862
Other assets	559,998	22,910	582,908
Land and construction in progress	18,789,022	11,855,871	30,644,893
Other capital assets, net of accumulated depreciation	<u>170,923,855</u>	<u>166,433,475</u>	<u>337,357,330</u>
<b>TOTAL ASSETS</b>	<b>274,241,700</b>	<b>214,923,193</b>	<b>489,164,893</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	5,972,897	3,819,087	9,791,984
Accounts payable	182,992	67,908	250,900
Retainage payable	-	1,232,638	1,232,638
Accrued liabilities	15,119,574	480,703	15,600,277
Tax refunds payable	5,539,839	-	5,539,839
Notes payable	9,889,447	40,831,651	50,721,098
Other liabilities	305,113	-	305,113
Current portion of long-term liabilities:			
Bonds payable	7,759,516	4,881,087	12,640,603
Compensated absences	2,142,401	105,281	2,247,682
Other liabilities	-	83,487	83,487
Noncurrent:			
Bonds payable	43,895,768	79,689,448	123,585,216
Net OPEB obligation	70,791,351	2,936,699	73,728,050
Compensated absences	964,933	7,856	972,789
Other liabilities	<u>-</u>	<u>1,159,967</u>	<u>1,159,967</u>
<b>TOTAL LIABILITIES</b>	<b>162,563,831</b>	<b>135,295,812</b>	<b>297,859,643</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	129,563,972	55,088,903	184,652,875
Restricted for:			
Grants and other statutory restrictions	9,835,007	-	9,835,007
Permanent funds:			
Nonexpendable	585,194	-	585,194
Expendable	1,884,154	-	1,884,154
Unrestricted	<u>(30,190,458)</u>	<u>24,538,478</u>	<u>(5,651,980)</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>111,677,869</u></b>	<b>\$ <u>79,627,381</u></b>	<b>\$ <u>191,305,250</u></b>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 9,991,597	\$ 1,840,726	\$ 182,009	\$ 841,306	\$ (7,127,556)	\$ -	\$ (7,127,556)
Public safety	33,432,899	6,009,994	1,445,247	-	(25,977,658)	-	(25,977,658)
Education	152,120,784	6,284,565	57,699,516	263,942	(87,872,761)	-	(87,872,761)
Public works	13,333,452	494,490	413,666	1,056,241	(11,369,055)	-	(11,369,055)
Health and human services	1,789,350	107,791	392,734	-	(1,288,825)	-	(1,288,825)
Culture and recreation	7,479,016	949,999	185,043	-	(6,343,974)	-	(6,343,974)
Employee benefits	58,862,860	11,650,888	-	-	(47,211,972)	-	(47,211,972)
Interest	2,283,349	-	-	-	(2,283,349)	-	(2,283,349)
Intergovernmental	4,319,065	-	-	-	(4,319,065)	-	(4,319,065)
Total Governmental Activities	283,612,372	27,338,453	60,318,215	2,161,489	(193,794,215)	-	(193,794,215)
<b>Business-Type Activities:</b>							
Water services	15,112,720	15,437,261	-	-	-	324,541	324,541
Sewer services	20,183,449	19,427,368	-	5,057,349	-	4,301,268	4,301,268
Total Business-type Activities	35,296,169	34,864,629	-	5,057,349	-	4,625,809	4,625,809
Total Primary Government	\$ <u>318,908,541</u>	\$ <u>62,203,082</u>	\$ <u>60,318,215</u>	\$ <u>7,218,838</u>	(193,794,215)	4,625,809	(189,168,406)
<b>General Revenues and transfers:</b>							
Property taxes					161,607,062	-	161,607,062
Excises					6,319,153	-	6,319,153
Penalties, interest and other taxes					4,296,859	-	4,296,859
Grants and contributions not restricted to specific programs					8,210,359	-	8,210,359
Investment income					458,302	8,640	466,942
Miscellaneous					488,922	192,384	681,306
Transfers, net					2,610,066	(2,610,066)	-
Total general revenues and transfers					183,990,723	(2,409,042)	181,581,681
Change in Net Assets					(9,803,492)	2,216,767	(7,586,725)
<b>Net Assets:</b>							
Beginning of Year					121,481,361	77,410,614	198,891,975
End of Year					\$ <u>111,677,869</u>	\$ <u>79,627,381</u>	\$ <u>191,305,250</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 23,092,064	\$ 12,270,754	\$ 35,362,818
Investments	13,022,194	1,458,791	14,480,985
Receivables:			
Property taxes	5,125,215	-	5,125,215
Motor vehicle excise	2,219,894	-	2,219,894
User fees	-	385,529	385,529
Departmental and other	40,731	446,066	486,797
Intergovernmental	-	3,331,206	3,331,206
Other assets	<u>46,728</u>	<u>15,321</u>	<u>62,049</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 43,546,826</u></b>	<b><u>\$ 17,907,667</u></b>	<b><u>\$ 61,454,493</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Warrants payable	\$ 2,949,831	\$ 2,682,592	\$ 5,632,423
Accounts payable	-	182,992	182,992
Accrued liabilities	7,701,325	741,153	8,442,478
Tax refunds payable	5,539,839	-	5,539,839
Deferred revenues	7,026,133	618,398	7,644,531
Notes payable	-	9,889,447	9,889,447
Other liabilities	<u>275,861</u>	<u>29,252</u>	<u>305,113</u>
<b>TOTAL LIABILITIES</b>	<b>23,492,989</b>	<b>14,143,834</b>	<b>37,636,823</b>
Fund Balances:			
Nonspendable	64,081	585,194	649,275
Restricted	65,908	13,473,790	13,539,698
Committed	9,331,606	32,909	9,364,515
Assigned	4,845,663	-	4,845,663
Unassigned	<u>5,746,579</u>	<u>(10,328,060)</u>	<u>(4,581,481)</u>
<b>TOTAL FUND BALANCES</b>	<b><u>20,053,837</u></b>	<b><u>3,763,833</u></b>	<b><u>23,817,670</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 43,546,826</u></b>	<b><u>\$ 17,907,667</u></b>	<b><u>\$ 61,454,493</u></b>

See notes to financial statements.

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

JUNE 30, 2012

<b>Total governmental fund balances</b>	\$	23,817,670
<ul style="list-style-type: none"> <li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li> </ul>	189,712,877	
<ul style="list-style-type: none"> <li>• Noncurrent assets, including MSBA reimbursements for contracted assistance, are not receivable in the current period and, therefore, are not reported in the governmental funds.</li> </ul>	17,358,640	
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	681,496	
<ul style="list-style-type: none"> <li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li> </ul>	5,365,825	
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	725,260	
<ul style="list-style-type: none"> <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	(429,930)	
<ul style="list-style-type: none"> <li>• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:</li> </ul>		
Bonds payable	(51,655,284)	
Net OPEB obligation	(70,791,351)	
Compensated absences liability	<u>(3,107,334)</u>	
<b>Net assets of governmental activities</b>	\$	<u><u>111,677,869</u></u>

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, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 161,093,718	\$ -	\$ 161,093,718
Excises	6,495,569	-	6,495,569
Penalties, interest and other taxes	4,296,859	-	4,296,859
Charges for services	2,331,204	10,570,471	12,901,675
Intergovernmental	56,889,772	17,113,607	74,003,379
Licenses and permits	2,169,815	65,600	2,235,415
Fines and forfeitures	460,500	14,636	475,136
Investment income	341,996	28,082	370,078
Contributions	-	503,028	503,028
Miscellaneous	334,816	154,106	488,922
Total Revenues	<u>234,414,249</u>	<u>28,449,530</u>	<u>262,863,779</u>
<b>Expenditures:</b>			
Current:			
General government	6,832,617	1,832,329	8,664,946
Public safety	23,702,965	4,855,254	28,558,219
Education	120,770,416	17,160,003	137,930,419
Public works	9,685,444	2,896,085	12,581,529
Human services	1,458,095	111,422	1,569,517
Culture and recreation	5,439,706	570,530	6,010,236
Employee benefits	47,659,480	-	47,659,480
Debt service	10,659,748	-	10,659,748
Intergovernmental	4,319,065	-	4,319,065
Capital outlay	-	8,751,040	8,751,040
Total Expenditures	<u>230,527,536</u>	<u>36,176,663</u>	<u>266,704,199</u>
Excess (Deficiency) of revenues over expenditures	3,886,713	(7,727,133)	(3,840,420)
<b>Other Financing Sources (Uses):</b>			
Transfers in	2,766,855	261,221	3,028,076
Transfers out	<u>(327,892)</u>	<u>(90,118)</u>	<u>(418,010)</u>
Total Other Financing Sources (Uses)	<u>2,438,963</u>	<u>171,103</u>	<u>2,610,066</u>
Change in fund balance	6,325,676	(7,556,030)	(1,230,354)
Fund Balance, at Beginning of Year	<u>13,728,161</u>	<u>11,319,863</u>	<u>25,048,024</u>
Fund Balance, at End of Year	<u>\$ 20,053,837</u>	<u>\$ 3,763,833</u>	<u>\$ 23,817,670</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, 2012

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ (1,230,354)</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;">11,729,881</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(10,447,065)</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. <span style="float: right;">(893,082)</span></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. <span style="float: right;">(2,510,995)</span></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>Repayments of debt</td> <td style="text-align: right;">8,301,366</td> </tr> <tr> <td>Deferred debt amortization</td> <td style="text-align: right;">(121,498)</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. <span style="float: right;">75,033</span></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;">(180,557)</td> </tr> <tr> <td>Increase in net OPEB obligation</td> <td style="text-align: right;">(15,061,953)</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. <span style="float: right;"><u>535,732</u></span></li> </ul>		Capital outlay purchases, net of disposals	11,729,881	Depreciation	(10,447,065)	Repayments of debt	8,301,366	Deferred debt amortization	(121,498)	Increase in liability for compensated absences	(180,557)	Increase in net OPEB obligation	(15,061,953)
Capital outlay purchases, net of disposals	11,729,881												
Depreciation	(10,447,065)												
Repayments of debt	8,301,366												
Deferred debt amortization	(121,498)												
Increase in liability for compensated absences	(180,557)												
Increase in net OPEB obligation	(15,061,953)												
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>(9,803,492)</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 160,980,046	\$ 161,887,527	\$ 161,887,527	\$ -
Excise	6,187,000	6,187,000	6,495,569	308,569
Penalties, interest and other taxes	4,019,450	4,019,450	4,296,860	277,410
Charges for services	2,265,333	2,265,333	2,331,204	65,871
Intergovernmental	35,150,347	35,150,347	36,490,917	1,340,570
Licenses and permits	1,970,000	1,970,000	2,169,815	199,815
Fines and forfeitures	475,000	475,000	460,500	(14,500)
Investment income	100,000	100,000	119,442	19,442
Miscellaneous	174,019	174,019	360,469	186,450
Transfers in	2,724,378	2,728,164	2,729,010	846
Other sources	<u>1,920,000</u>	<u>1,920,000</u>	<u>1,920,000</u>	<u>-</u>
Total Revenues and Other Sources	215,965,573	216,876,840	219,261,313	2,384,473
<b>Expenditures and Other Uses:</b>				
General government	7,717,786	7,387,535	6,964,942	422,593
Public safety	24,363,340	24,560,049	23,792,425	767,624
Education	99,724,282	100,331,282	100,331,282	-
Public works	10,687,014	10,705,793	9,845,860	859,933
Human services	1,267,914	1,492,970	1,461,812	31,158
Culture and recreation	5,393,607	5,462,549	5,436,498	26,051
Employee benefits	49,586,517	47,996,030	48,015,534	(19,504)
Debt service	8,948,779	10,664,298	10,615,992	48,306
Intergovernmental	4,338,613	4,338,613	4,319,065	19,548
Transfers out	1,520,000	1,520,000	1,520,000	-
Other uses	<u>2,417,721</u>	<u>2,417,721</u>	<u>2,417,721</u>	<u>-</u>
Total Expenditures and Other Uses	<u>215,965,573</u>	<u>216,876,840</u>	<u>214,721,131</u>	<u>2,155,709</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,540,182</u>	\$ <u>4,540,182</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Water Fund	Sewer Fund	Total	
<b><u>ASSETS</u></b>				
Current:				
Cash and short-term investments	\$ 8,633,452	\$ 297,238	\$ 8,930,690	\$ 7,274,457
User fees, net of allowance for uncollectibles	5,413,515	6,621,811	12,035,326	-
Intergovernmental	-	13,295,337	13,295,337	-
Assessments	83,489	-	83,489	-
Other assets	<u>22,909</u>	<u>-</u>	<u>22,909</u>	<u>38,443</u>
Total current assets	14,153,365	20,214,386	34,367,751	7,312,900
Noncurrent:				
Intergovernmental	-	1,261,324	1,261,324	-
Assessments	981,862	-	981,862	-
Other assets	22,910	-	22,910	-
Land and construction in progress	8,178,095	3,677,776	11,855,871	-
Other capital assets, net of accumulated depreciation	<u>58,037,274</u>	<u>108,396,201</u>	<u>166,433,475</u>	<u>-</u>
Total noncurrent assets	<u>67,220,141</u>	<u>113,335,301</u>	<u>180,555,442</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b>81,373,506</b>	<b>133,549,687</b>	<b>214,923,193</b>	<b>7,312,900</b>
<b><u>LIABILITIES</u></b>				
Current:				
Warrants payable	1,098,722	2,720,365	3,819,087	340,474
Accounts payable	55,207	12,701	67,908	-
Retainage payable	-	1,232,638	1,232,638	-
Accrued liabilities	123,251	357,452	480,703	6,247,166
Notes payable	21,719,054	19,112,597	40,831,651	-
Current portion of long-term liabilities:				
Bonds payable	2,057,250	2,823,837	4,881,087	-
Compensated absences	73,375	31,906	105,281	-
Other liabilities	<u>39,263</u>	<u>44,224</u>	<u>83,487</u>	<u>-</u>
Total current liabilities	25,166,122	26,335,720	51,501,842	6,587,640
Noncurrent:				
Bonds payable	18,740,008	60,949,440	79,689,448	-
Net OPEB obligation	1,537,224	1,399,475	2,936,699	-
Compensated absences	5,197	2,659	7,856	-
Other liabilities	<u>667,484</u>	<u>492,483</u>	<u>1,159,967</u>	<u>-</u>
Total noncurrent liabilities	<u>20,949,913</u>	<u>62,844,057</u>	<u>83,793,970</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b>46,116,035</b>	<b>89,179,777</b>	<b>135,295,812</b>	<b>6,587,640</b>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	25,900,799	29,188,104	55,088,903	-
Unrestricted	<u>9,356,672</u>	<u>15,181,806</u>	<u>24,538,478</u>	<u>725,260</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 35,257,471</b>	<b>\$ 44,369,910</b>	<b>\$ 79,627,381</b>	<b>\$ 725,260</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, 2012

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<b>Operating Revenues:</b>				
Charges for services	\$ 15,330,015	\$ 19,312,278	\$ 34,642,293	\$ 45,313,713
Other	<u>107,246</u>	<u>115,090</u>	<u>222,336</u>	<u>-</u>
Total Operating Revenues	15,437,261	19,427,368	34,864,629	45,313,713
<b>Operating Expenses:</b>				
Salaries and wages	3,094,606	2,611,215	5,705,821	-
Operating expenses	1,679,985	1,414,297	3,094,282	44,866,205
Depreciation	2,085,118	4,497,636	6,582,754	-
Intergovernmental	6,878,514	10,365,277	17,243,791	-
Other	<u>22,910</u>	<u>-</u>	<u>22,910</u>	<u>-</u>
Total Operating Expenses	<u>13,761,133</u>	<u>18,888,425</u>	<u>32,649,558</u>	<u>44,866,205</u>
Operating Income	1,676,128	538,943	2,215,071	447,508
<b>Nonoperating Revenues (Expenses):</b>				
Investment income	7,172	1,468	8,640	88,224
Interest expense	(1,351,587)	(1,295,024)	(2,646,611)	-
Other nonoperating income	<u>57,188</u>	<u>135,196</u>	<u>192,384</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(1,287,227)</u>	<u>(1,158,360)</u>	<u>(2,445,587)</u>	<u>88,224</u>
Income (Loss) Before Capital Contributions and Transfers	388,901	(619,417)	(230,516)	535,732
Capital contributions	-	5,057,349	5,057,349	-
Transfers in	54,000	12,671	66,671	-
Transfers out	<u>(1,372,129)</u>	<u>(1,304,608)</u>	<u>(2,676,737)</u>	<u>-</u>
Change in Net Assets	(929,228)	3,145,995	2,216,767	535,732
Net Assets at Beginning of Year	<u>36,186,699</u>	<u>41,223,915</u>	<u>77,410,614</u>	<u>189,528</u>
Net Assets at End of Year	<u>\$ 35,257,471</u>	<u>\$ 44,369,910</u>	<u>\$ 79,627,381</u>	<u>\$ 725,260</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	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	\$ 15,530,619	\$ 18,884,976	\$ 34,415,595	\$ 45,318,988
Payments to vendors	(8,776,547)	(12,339,261)	(21,115,808)	(45,040,628)
Payments to employees	(2,802,157)	(2,290,961)	(5,093,118)	-
Net Cash Provided By Operating Activities	3,951,915	4,254,754	8,206,669	278,360
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>				
Transfers in	54,000	12,671	66,671	-
Transfers out	(1,372,129)	(1,304,608)	(2,676,737)	-
Other nonoperating income	17,924	90,972	108,896	-
Net Cash (Used For) Noncapital Financing Activities	(1,300,205)	(1,200,965)	(2,501,170)	-
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>				
Proceeds from issuance of bonds and notes	21,719,054	65,075,617	86,794,671	-
Acquisition and construction of capital assets	(6,871,783)	(30,247,533)	(37,119,316)	-
Principal payments on bonds and notes	(22,334,954)	(43,689,868)	(66,024,822)	-
Interest expense	(1,375,709)	(1,422,832)	(2,798,541)	-
Capital contributions	-	3,904,636	3,904,636	-
Net (Used For) Capital and Related Financing Activities	(8,863,392)	(6,379,980)	(15,243,372)	-
<b><u>Cash Flows From Investing Activities:</u></b>				
Investment income	7,172	1,468	8,640	88,224
Net Cash Provided By Investing Activities	7,172	1,468	8,640	88,224
Net Change in Cash and Short-Term Investments	(6,204,510)	(3,324,723)	(9,529,233)	366,584
Cash and Short-Term Investments, Beginning of Year	14,837,962	3,621,961	18,459,923	6,907,873
Cash and Short-Term Investments, End of Year	\$ 8,633,452	\$ 297,238	\$ 8,930,690	\$ 7,274,457
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u></b>				
Operating income	\$ 1,676,128	\$ 538,943	\$ 2,215,071	\$ 447,508
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	2,085,118	4,497,636	6,582,754	-
Changes in assets and liabilities:				
User fees	(43,289)	(542,392)	(585,681)	-
Assessments	136,647	-	136,647	-
Other assets	22,910	-	22,910	5,275
Warrants payable	(200,448)	(693,714)	(894,162)	283,768
Accounts payable	(17,600)	(55,200)	(72,800)	-
Retainage payable	-	189,227	189,227	-
Accrued liabilities	(36,758)	(73,273)	(110,031)	(458,191)
Compensated absences	3,222	(2,406)	816	-
Net OPEB obligation	325,985	395,933	721,918	-
Net Cash Provided By Operating Activities	\$ 3,951,915	\$ 4,254,754	\$ 8,206,669	\$ 278,360

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2012

	Pension Trust Fund (as of <u>December 31, 2011</u> )	Agency <u>Funds</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 885,317	\$ 4,976,721
Investments	190,349,333	130,273
Accounts receivable	<u>348,885</u>	<u>-</u>
Total Assets	191,583,535	5,106,994
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Warrants payable	7,580	9,997
Deferred revenue	5,388,916	-
Other liabilities	<u>-</u>	<u>5,096,997</u>
Total Liabilities	<u>5,396,496</u>	<u>5,106,994</u>
Total Net Assets Held in Trust For Pension Benefits	<u>\$ 186,187,039</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 DECEMBER 31, 2011

	Pension Trust Fund (for the year ended <u>December 31, 2011</u> )
<b>Additions:</b>	
Contributions:	
Employers	\$ 10,659,095
Plan members	5,231,157
Reimbursements from federal grants	72,610
Reimbursements from Commonwealth of Massachusetts	371,273
Reimbursements from other systems	<u>440,306</u>
Total contributions	16,774,441
Investment Income:	
Increase in fair value of investments	163,593
Less: management fees	<u>(966,652)</u>
Net investment income	<u>(803,059)</u>
Total additions	15,971,382
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	17,985,012
Reimbursements to other systems	472,843
Refunds and transfers of plan member accounts to other systems	1,279,435
Administrative expenses	<u>302,352</u>
Total deductions	<u>20,039,642</u>
Net increase	(4,068,260)
<b>Net assets held in trust for pension benefits:</b>	
Beginning of Year	<u>190,255,299</u>
End of Year	<u>\$ 186,187,039</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.

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.

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 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2012 tax levy reflected an excess capacity of \$1,179.

#### *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, equipment, and infrastructure 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 - 100
Vehicles	5 - 10
Machinery, equipment and furnishings	5 - 10
Computer equipment	5

*I. Compensated Absences*

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

*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

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

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

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

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

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

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed

by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

*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 to budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 234,414,249	\$ 230,527,536
Other financing sources/uses (GAAP Basis)	<u>2,766,855</u>	<u>327,892</u>
Subtotal (GAAP Basis)	237,181,104	230,855,428
Adjust tax revenue to accrual basis	793,809	-
Reverse expenditures of prior year carryforwards	-	(1,177,705)
Add end-of-year appropriation carryforwards from expenditures	-	1,871,000
To reverse the effect of non- budgeted State contributions for teachers retirement	(20,398,855)	(20,398,855)
To reverse non-budgeted activity	(234,745)	1,155,602
To reverse change in accrued interest	-	(2,060)
Recognize other sources and uses	<u>1,920,000</u>	<u>2,417,721</u>
Budgetary Basis	<u>\$ 219,261,313</u>	<u>\$ 214,721,131</u>



(continued)

Lib Design Handi Ramps	(28,671)
Beach Dock Rplcment	(36,816)
Butterworth Phase 1	(23,531)
Inground Fuel Tank	(24,453)
P&T- Con Strmwtr Mgt ATM	(15,926)
Roadway Improvements	(1,596,365)
Sidewalk Acc Improv	(150,000)
Town Buildings	(299,086)
Web Content Mgt Syst	(85,740)
Network Infrastructure Im	(179,862)
Replace Engine 7 Pumper	(227,100)
Playground Equip/Handicap Access Imprv Phs 2	(52,681)
Fin Manage Soft	(11,063)
15,000 GVW 4WD Cab	(42,778)
Defibrillator	(28,545)
F250 4x4 Reg Cab	(26,763)
Mobile Laptops	(140,852)
Brush Chipper #481	(102,000)
4WD HD Cab & Chassi	(42,449)
4WD HD Cab & Chassi	(42,449)
4WD Cab & Chassi	(53,969)
HD 4WD Cab	(50,065)
40,000 GVW Cab & Ch	(219,697)
Sidewalk Tractor	(132,540)
Sidewalk Tracto w/ 15,000 4WD Cab	(147,860)
Front End Loader Mo	(64,242)
40,000 GVW Cab & Ch	(58,952)
Two (2) Wing Plows	(219,697)
Heavy Duty 4WD Cab	(47,360)
Munis Financial Sys	(42,449)
Network Equipment	(46,817)
Other (10 individual projects)	(23,191)
West Metro HOME Consortium	(476)
Dept of Energy	(69,737)
EPA Brownfields Grant	(115,568)
Mass Executive Office Public Safety	(354)
NIH.NEVUS Study	(29,680)
	(2,924)
Total	<u>\$ (10,328,060)</u>

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, 2012 and December 31, 2011, \$17,339,131 and \$865,472 of the Town's and System's bank balances of \$57,773,831 and \$1,375,182 respectively, was exposed to custodial credit risk as uninsured or uncollateralized.

Of the Town's balance exposed to custodial credit risk, \$15,928,904 is on deposit with Massachusetts Municipal Depository Trust.

Of the System's balance exposed to custodial credit risk, \$810,209 is on deposit with the Pension Reserve Investment Trust and \$55,263 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) is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year-end</u>			
		<u>AAA</u>	<u>AA</u>	<u>BBB</u>	<u>Not Rated</u>
Corporate Stocks	\$ 3,109	\$ -	\$ -	\$ -	\$ 3,109
Corporate bonds	729	-	517	212	-
Certificate of deposit	3,334	-	-	-	3,334
Mutual funds	1,663	-	-	-	1,663
Federal agency securities	<u>5,776</u>	<u>5,776</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 14,611</u>	<u>\$ 5,776</u>	<u>\$ 517</u>	<u>\$ 212</u>	<u>\$ 8,106</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, 2011, the Contributory Retirement System maintained its investments in the State Investment Pool\* with a fair value of \$190,349,333. 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 were exposed to custodial credit risk because the related securities are uninsured, unregistered, and/or 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 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 or 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:

<u>Investment Issuer</u>	<u>Amount</u>
Federal National Mortgage Association	\$ <u>5,167,286</u>
Total	\$ <u>5,167,286</u>

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>	<u>&gt;10</u>
Debt-related Securities:					
Corporate bonds	\$ 729	\$ 412	\$ 317	\$ -	\$ -
Certificate of deposit	3,334	1,279	2,055	-	-
Federal agency securities	<u>5,776</u>	<u>-</u>	<u>5,776</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,839</u>	<u>\$ 1,691</u>	<u>\$ 8,148</u>	<u>\$ -</u>	<u>\$ -</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, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 1,332	
2011	35	
2010	17	
2009	10	
Prior	<u>2</u>	1,396
Personal Property		
2012	39	
2011	46	
2010	47	
2009	37	
Prior	<u>244</u>	413
Tax Liens		2,854
Deferred Taxes		<u>462</u>
Total		<u>\$ 5,125</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	\$ 866	\$ -
Excises	\$ 1,413	\$ -
Utilities	\$ -	\$ 364

**7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012, as well as funding to be provided by the Massachusetts School Building Authority for reimbursement of approved school capital project expenditures.

**8. Interfund Fund Transfers**

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers

presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2012:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
<b><u>Governmental Funds:</u></b>			
General Fund	\$ 2,766,855	\$ 327,892	\$ 2,438,963
Nonmajor Governmental Funds	<u>261,221</u>	<u>90,118</u>	<u>171,103</u>
Subtotal - Governmental	3,028,076	418,010	2,610,066
<b><u>Proprietary Funds:</u></b>			
Water Enterprise Fund	54,000	1,372,129	(1,318,129)
Sewer Enterprise Fund	<u>12,671</u>	<u>1,304,608</u>	<u>(1,291,937)</u>
Subtotal - Proprietary	<u>66,671</u>	<u>2,676,737</u>	<u>(2,610,066)</u>
Total	<u>\$ 3,094,747</u>	<u>\$ 3,094,747</u>	<u>\$ -</u>

## 9. **Capital Assets**

Capital asset activity for the year ended June 30, 2012 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	\$ 190,320	\$ 3,671	\$ -	\$ 193,991
Vehicles, machinery, equipment and furnishings	38,995	3,621	-	42,616
Infrastructure	<u>45,546</u>	<u>4,345</u>	<u>-</u>	<u>49,891</u>
Total capital assets, being depreciated	274,861	11,637	-	286,498
Less accumulated depreciation for:				
Buildings and improvements	(61,114)	(5,744)	-	(66,858)
Vehicles, machinery, equipment and furnishings	(26,230)	(3,209)	-	(29,439)
Infrastructure	<u>(17,783)</u>	<u>(1,494)</u>	<u>-</u>	<u>(19,277)</u>
Total accumulated depreciation	<u>(105,127)</u>	<u>(10,447)</u>	<u>-</u>	<u>(115,574)</u>
Total capital assets, being depreciated, net	169,734	1,190	-	170,924
Capital assets, not being depreciated:				
Land	18,521	99	-	18,620
Construction in progress	<u>175</u>	<u>-</u>	<u>(6)</u>	<u>169</u>
Total capital assets, not being depreciated	<u>18,696</u>	<u>99</u>	<u>(6)</u>	<u>18,789</u>
Governmental activities capital assets, net	<u>\$ 188,430</u>	<u>\$ 1,289</u>	<u>\$ (6)</u>	<u>\$ 189,713</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 21,607	\$ 3,437	\$ -	\$ 25,044
Vehicles, machinery, equipment and furnishings	9,454	762	-	10,216
Infrastructure	<u>132,476</u>	<u>48,965</u>	<u>-</u>	<u>181,441</u>
Total capital assets, being depreciated	163,537	53,164	-	216,701
Less accumulated depreciation for:				
Capital assets, being depreciated:				
Buildings and improvements	(3,824)	(844)	-	(4,668)
Vehicles, machinery, equipment and furnishings	(5,375)	(849)	-	(6,224)
Infrastructure	<u>(34,486)</u>	<u>(4,890)</u>	<u>-</u>	<u>(39,376)</u>
Total accumulated depreciation	<u>(43,685)</u>	<u>(6,583)</u>	<u>-</u>	<u>(50,268)</u>
Total capital assets, being depreciated, net	119,852	46,581	-	166,433
Capital assets, not being depreciated:				
Land	1,108	-	-	1,108
Construction in progress	<u>26,793</u>	<u>2,734</u>	<u>(18,779)</u>	<u>10,748</u>
Total capital assets, not being depreciated	<u>27,901</u>	<u>2,734</u>	<u>(18,779)</u>	<u>11,856</u>
Business-type activities capital assets, net	<u>\$ 147,753</u>	<u>\$ 49,315</u>	<u>\$ (18,779)</u>	<u>\$ 178,289</u>

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

<b>Governmental Activities:</b>	
General government	\$ 1,194
Public safety	1,354
Education	4,416
Public works	2,383
Health and human services	119
Culture and recreation	<u>981</u>
Total depreciation expense - governmental activities	<u>\$ 10,447</u>
<b>Business-Type Activities:</b>	
Water	\$ 2,085
Sewer	<u>4,498</u>
Total depreciation expense - business-type activities	<u>\$ 6,583</u>

**10. Warrants and Accounts Payable**

Warrants payable represent 2012 expenditures paid by July 15, 2012. Accounts payable represent additional 2012 expenditures paid after July 15, 2012.

**11. 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, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

**12. 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.

**13. Anticipation Notes Payable**

The Town had the following notes outstanding at June 30, 2012:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/12</u>
Bond anticipation	0.50%	06/15/12	12/14/12	\$ 47,578,202
State revolving loan	0.13%	06/01/12	12/31/13	<u>3,142,896</u>
Total				<u>\$ 50,721,098</u>

The following summarizes activity in notes payable during fiscal year 2012:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
State revolving loan	\$ 25,152,743	\$ -	\$ (25,152,743)	\$ -
State revolving loan	500,000	-	(500,000)	-
State revolving loan	1,724,924	-	(1,724,924)	-
State revolving loan	525,000	-	(525,000)	-
Bond anticipation	33,167,977	-	(33,167,977)	-
State revolving loan	-	6,466	(6,466)	-
Bond anticipation	-	47,578,202	-	47,578,202
State revolving loan	-	3,142,896	-	3,142,896
Total	<u>\$ 61,070,644</u>	<u>\$ 50,727,564</u>	<u>\$ (61,077,110)</u>	<u>\$ 50,721,098</u>

## 14. 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:

<u>Governmental Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of <u>6/30/12</u>
General obligation	03/25	3.79%	\$ 1,950,000
General obligation	03/24	3.79%	1,005,000
General obligation	08/14	4.00%	2,190,000
General obligation	03/24	3.79%	870,000
General obligation	02/19	4.34%	7,005,500
General obligation	03/13	3.00%	120,000
General obligation	11/23	0.00%	297,435
General obligation	03/20	5.51%	7,167,500
General obligation	03/24	3.00%	760,000
General obligation	03/15	3.00%	1,285,577
General obligation	06/26	4.08%	1,082,000
General obligation	11/27	3.84%	3,005,000
General obligation	07/27	2.00%	247,699
General obligation	06/24	3.00%	4,931,000
General obligation	06/30	3.00%	4,078,000
General obligation	07/30	2.00%	295,573
General obligation	06/31	3.63%	<u>15,365,000</u>
Total Governmental Activities			<u>\$ 51,655,284</u>

<u>Business-Type Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/12
Water (MWRA)	03/13	3.00%	\$ 220,000
Sewer	03/25	3.79%	405,000
Sewer (MWRA)	06/15	2.54%	91,857
Water	03/24	3.00%	2,210,000
Sewer (MWPAT)	03/24	0.00%	210,180
Sewer	03/15	3.00%	131,505
Water	03/15	3.00%	177,918
Water	03/25	3.79%	1,030,000
Water (MWRA)	02/15	0.00%	434,700
Water (MWRA)	02/16	0.00%	799,640
Water	06/26	4.08%	1,723,000
Sewer	06/26	4.08%	845,000
Sewer	11/27	3.84%	2,420,000
Water	11/27	3.84%	375,000
Sewer	07/27	2.00%	7,627,077
Sewer (MWPAT)	07/28	2.00%	383,839
Sewer (MWPAT)	07/28	2.00%	1,870,550
Water	06/24	3.00%	124,000
Sewer	06/24	3.00%	5,000
Water	06/30	3.53%	6,278,000
Sewer	06/30	3.53%	469,000
Sewer (MWPAT)	07/30	2.00%	1,451,094
Sewer (MWPAT)	07/27	2.00%	118,678
Sewer (MWPAT)	07/30	2.00%	180,130
Sewer (MWPAT)	07/30	2.00%	3,140,084
Sewer (MWPAT)	07/30	2.00%	3,602,203
Sewer (MWPAT)	07/30	2.00%	8,104,667
Sewer (MWPAT)	07/30	2.00%	298,252
Water	06/31	3.63%	7,425,000
Sewer	06/31	3.63%	7,815,000
Sewer (MWRA)	11/16	0.00%	424,933
Sewer (MWPAT)	07/28	2.00%	6,466
Sewer (MWPAT)	07/32	2.00%	<u>24,172,762</u>
Total Business-Type Activities			<u>\$ 84,570,535</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 7,759,516	\$ 1,766,503	\$ 9,526,019
2014	7,021,102	1,537,060	8,558,162
2015	6,350,573	1,308,251	7,658,824
2016	4,676,811	1,115,028	5,791,839
2017	4,182,372	947,145	5,129,517
2018 - 2022	14,589,673	2,739,775	17,329,448
2023 - 2027	5,931,485	788,141	6,719,626
2028 - 2032	<u>1,143,752</u>	<u>90,101</u>	<u>1,233,853</u>
Total	\$ <u>51,655,284</u>	\$ <u>10,292,004</u>	\$ <u>61,947,288</u>

The general fund has been designated as the source to repay the governmental-type general obligation debt outstanding as of June 30, 2012.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,881,087	\$ 2,203,811	\$ 7,084,898
2014	5,753,339	2,143,796	7,897,135
2015	5,490,639	1,991,292	7,481,931
2016	4,607,809	1,850,539	6,458,348
2017	4,350,747	1,725,765	6,076,512
2018 - 2022	21,383,680	6,705,510	28,089,190
2023 - 2027	21,189,474	3,675,994	24,865,468
2028 - 2032	15,442,561	1,058,035	16,500,596
2033 - 2037	<u>1,471,199</u>	<u>15,815</u>	<u>1,487,014</u>
Total	\$ <u>84,570,535</u>	\$ <u>21,370,557</u>	\$ <u>105,941,092</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2012 are as follows:

<u>Purpose</u>	<u>Amount</u>
Birch Rd Well	\$ 38,337,900
East Fram Sewer Proj	691,389
Lakeview	1,585,000
Central St Siphon	1,804,614
N Concord St Wtr Main Replacement	7,042,735
Grant/Pond St Wtr Main	6,213,000
Goodnow Wtr Pump Station	1,385,000
Grant/Pond St Sewer Replacement	2,978,086
Stapleton Windows	588,438
McAulife Branch Library Land	710,000
Replace Ladder 3 Fire	975,000
Downtown Water Utilities	2,580,000
Downtown Sewer Utilities	1,665,000
Technology Park Sewer	800,000
North Framingham Pump Station	3,167,104
Worcester Road Pump Station	1,925,000
Replace Fire Engine	550,000
Roadway Improve 2013	2,500,000
Irving Loring Herbert	1,791,590
Beebe Water Tank	3,214,000
Wastewater Backup Upgrades	550,000
Hancock Lane Pump	804,666
East Fram/Central St	2,400,000
Irving Herbert Loring	2,475,000
Speen St Interceptor	1,178,000
Other (63 individual projects)	<u>6,907,045</u>
Total	\$ <u><u>94,818,567</u></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</u> <u>Estimated Share</u>
MWRA - Water	\$ 2,099,794	3.73%	\$ 78,322
MWRA - Sewer	4,027,396	2.78%	111,962
MBTA and MWRTA	5,769,215	1.35%	<u>77,884</u>
			\$ <u><u>268,168</u></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, 2012 (in thousands):

Revised equalized valuation - July 20, 2012		\$	<u>7,835,823</u>
Debt limit - 5% of equalized valuation		\$	391,791
Total debt outstanding	136,226		
Less: debt exempt from limit	<u>(41,922)</u>		<u>94,304</u>
Legal Debt Margin		\$	<u>297,487</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, 2012, 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, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/11	Additions	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<u>Governmental Activities</u>						
Bonds payable	\$ 59,957	\$ -	\$ (8,301)	\$ 51,656	\$ (7,760)	\$ 43,896
Net OPEB obligation	55,729	14,590	-	70,319	-	70,319
Accrued employee benefits	2,927	404	(224)	3,107	(2,142)	965
Totals	\$ <u>118,613</u>	\$ <u>14,994</u>	\$ <u>(8,525)</u>	\$ <u>125,082</u>	\$ <u>(9,902)</u>	\$ <u>115,180</u>

	Total Balance 7/1/11	Additions	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<u>Business-Type Activities</u>						
Bonds payable	\$ 67,442	\$ 24,604	\$ (7,476)	\$ 84,570	\$ (4,881)	\$ 79,689
Net OPEB obligation	2,215	722	-	2,937	-	2,937
Accrued employee benefits	112	3	(2)	113	(105)	8
Other liabilities	1,327	-	(83)	1,244	(84)	1,160
Totals	\$ <u>71,096</u>	\$ <u>25,329</u>	\$ <u>(7,561)</u>	\$ <u>88,864</u>	\$ <u>(5,070)</u>	\$ <u>83,794</u>

## 15. 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.

## 16. Governmental Funds - Balances

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

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

The following types of fund balances are reported at June 30, 2012:

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

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

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

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

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2012:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Prepaid expenditures	\$ 63,531	\$ -	\$ 63,531
Petty cash	550	-	550
Nonexpendable permanent funds	<u>-</u>	<u>585,194</u>	<u>585,194</u>
Total Nonspendable	64,081	585,194	649,275
Restricted			
Debt service	65,908	-	65,908
Bonded projects	-	1,754,629	1,754,629
Special revenue funds	-	9,835,007	9,835,007
Expendable permanent funds	<u>-</u>	<u>1,884,154</u>	<u>1,884,154</u>
Total Restricted	65,908	13,473,790	13,539,698

(continued)

(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
Stabilization funds	9,268,573	-	9,268,573
Conservation	63,033	-	63,033
Capital project funds	-	32,909	32,909
Total Committed	9,331,606	32,909	9,364,515
Assigned			
Encumbered for:			
General government	1,010,152	-	1,010,152
Public safety	116,847	-	116,847
Public works	280,213	-	280,213
Employee benefits	399,019	-	399,019
Other	64,768	-	64,768
For next year's expenditures	2,974,664	-	2,974,664
Total Assigned	4,845,663	-	4,845,663
Unassigned	5,746,579	(10,328,060)	(4,581,481)
Total Unassigned	5,746,579	(10,328,060)	(4,581,481)
Total Fund Balance	\$ 20,053,837	\$ 3,763,833	\$ 23,817,670

## 17. General Fund Unassigned Fund Balance

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

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

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

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

GAAP basis balance	\$	5,746,579
Unfunded tax refund estimate		<u>4,582,829</u>
Statutory (UMAS) Balance	\$	<u><u>10,329,408</u></u>

**18. Subsequent Events**

Debt

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
State revolving loan	\$ 1,549,284	2.00%	07/25/12	12/31/12

**19. Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues 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.

**20. Post-Employment Healthcare 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 Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired

employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2010, the actuarial valuation date, approximately 1,592 retirees and 1,951 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 2012 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, 2012, 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, 2010.

Annual Required Contribution (ARC)	\$ 26,537,433
Interest on net OPEB obligation	2,317,367
Adjustment to ARC	<u>(1,845,496)</u>
Annual OPEB cost	27,009,304
Contributions made	<u>(11,225,433)</u>
Increase in net OPEB obligation	15,783,871
Net OPEB obligation - beginning of year	<u>57,944,179</u>
Net OPEB obligation - end of year	<u><u>\$ 73,728,050</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>
2012	\$ 27,009,304	41.6%	\$ 73,728,050
2011	\$ 25,300,181	41.4%	\$ 57,944,179
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, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 371,529,899
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 371,529,899</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 113,924,177</u>
UAAL as a percentage of covered payroll	<u>326%</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 tech-

niques 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, 2010 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance 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 an open basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

**21. 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, 2011:

Retirees and beneficiaries receiving benefits	807
Terminated plan members entitled to but not yet receiving benefits	262
Active plan members	<u>1,010</u>
Total	<u><u>2,079</u></u>
Number of participating employers	3

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:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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%
2011	\$ 10,127,177	100%
2012	\$ 10,270,195	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, 2011, the unfunded actuarially accrued liability is being amortized over 18 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 2012, the Commonwealth of Massachusetts contributed \$20,398,855 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

## **22. 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, 2012 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 6,705,357
Claims incurred/recognized in fiscal year 2012	44,866,205
Claims paid in fiscal year 2012	<u>(45,324,396)</u>
Claims liability, end of year	<u>\$ 6,247,166</u>

The \$6,247,166 estimated liability for claims incurred but not reported includes only an estimate for known loss events expected to later be presented as claims. The Town is unable to estimate the amount of unknown loss events expected to become claims and expected future developments on claims already reported.

### **23. 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.

### **24. Implementation of New GASB Standards**

The GASB has issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Town of Framingham's actuarially accrued liability.

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

**June 30, 2012**

**(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%
07/01/10	\$ -	\$ 371,530	\$ 371,530	0.0%	\$ 113,924	326%

See Independent Auditors' Report.