

**TOWN OF  
FRAMINGHAM, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2014**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Framingham, Massachusetts

**Additional Offices:**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, Massachusetts, as of and for the year ended June 30, 2014 (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, as of June 30, 2014 (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2013), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Melanson Heath*

March 25, 2015

## **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, 2014. 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 Position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include 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. The Town converted from a self-insurance program to a premium-based program through GIC insurance for fiscal year 2015.

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 \$174,776 (i.e., net position), a change of \$(9,668) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$38,182, a change of \$9,072 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$24,264, a change of \$3,226 in comparison to the prior year, while committed fund balance was \$2,179, a change of \$1,762 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$167,274, a change of \$7,347 in comparison to the prior year. The Town also had \$48,826 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).

	<b>NET POSITION</b>					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 95,371	\$ 90,600	\$ 38,904	\$ 36,692	\$ 134,275	\$ 127,292
Deferred outflows of resources	439	560	-	23	439	583
Capital assets	<u>194,344</u>	<u>190,965</u>	<u>197,385</u>	<u>192,479</u>	<u>391,729</u>	<u>383,444</u>
Total assets and deferred outflows	290,154	282,125	236,289	229,194	526,443	511,319
Long-term liabilities outstanding	151,761	136,096	118,651	114,366	270,412	250,462
Notes payable	7,817	9,583	41,009	35,154	48,826	44,737
Deferred inflows of resources	307	335	277	319	584	654
Other liabilities	<u>29,640</u>	<u>27,566</u>	<u>2,205</u>	<u>3,456</u>	<u>31,845</u>	<u>31,022</u>
Total liabilities and deferred inflows	189,525	173,580	162,142	153,295	351,667	326,875
Net position:						
Net investment in capital assets	133,338	131,640	58,985	59,181	192,323	190,821
Restricted	10,472	10,202	-	-	10,472	10,202
Unrestricted	<u>(43,181)</u>	<u>(33,297)</u>	<u>15,162</u>	<u>16,718</u>	<u>(28,019)</u>	<u>(16,579)</u>
Total net position	<u>\$ 100,629</u>	<u>\$ 108,545</u>	<u>\$ 74,147</u>	<u>\$ 75,899</u>	<u>\$ 174,776</u>	<u>\$ 184,444</u>

	<b>CHANGES IN NET POSITION</b>					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 24,249	\$ 24,515	\$ 41,044	\$ 35,445	\$ 65,293	\$ 59,960
Operating grants and contributions	70,839	65,686	-	-	70,839	65,686
Capital grants and contributions	4,268	6,300	27	344	4,295	6,644
General revenues:						
Property taxes	167,504	165,301	-	-	167,504	165,301
Excises	7,558	6,199	-	-	7,558	6,199
Penalties, interest and other taxes	4,429	4,321	-	-	4,429	4,321
Grants and contributions not restricted to specific programs	9,026	8,819	-	-	9,026	8,819
Investment income	1,651	921	7	9	1,658	930
Miscellaneous	<u>2,121</u>	<u>596</u>	<u>269</u>	<u>332</u>	<u>2,390</u>	<u>928</u>
Total revenues	291,645	282,658	41,347	36,130	332,992	318,788

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Expenses:						
General government	12,109	11,254	-	-	12,109	11,254
Public safety	31,957	32,155	-	-	31,957	32,155
Education	161,376	155,281	-	-	161,376	155,281
Public works	16,239	15,037	-	-	16,239	15,037
Human services	1,791	1,712	-	-	1,791	1,712
Culture and recreation	7,850	7,213	-	-	7,850	7,213
Employee benefits	62,818	58,360	-	-	62,818	58,360
Interest	2,678	2,237	-	-	2,678	2,237
Intergovernmental	5,446	4,984	-	-	5,446	4,984
Water	-	-	16,301	15,598	16,301	15,598
Sewer	-	-	24,095	21,818	24,095	21,818
Total expenses	<u>302,264</u>	<u>288,233</u>	<u>40,396</u>	<u>37,416</u>	<u>342,660</u>	<u>325,649</u>
Change in net position before transfers	(10,619)	(5,575)	951	(1,286)	(9,668)	(6,861)
Transfers in (out)	<u>2,703</u>	<u>2,442</u>	<u>(2,703)</u>	<u>(2,442)</u>	<u>-</u>	<u>-</u>
Change in net position	(7,916)	(3,133)	(1,752)	(3,728)	(9,668)	(6,861)
Net position - beginning of year	<u>108,545</u>	<u>111,678</u>	<u>75,899</u>	<u>79,627</u>	<u>184,444</u>	<u>191,305</u>
Net position - end of year	<u>\$ 100,629</u>	<u>\$ 108,545</u>	<u>\$ 74,147</u>	<u>\$ 75,899</u>	<u>\$ 174,776</u>	<u>\$ 184,444</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$174,776, a change of \$(9,668) from the prior year.

The largest portion of net position, \$192,323 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 position, \$10,472 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$(28,019) 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 position of \$(7,917). Key elements of this change are as follows:

Excess of revenues over (under) expenditures:	
General fund	\$ 2,541
Internal service fund	(1,421)
General fund transfers from enterprise funds, net	<u>2,703</u>
Subtotal	3,823
Increase in net OPEB obligation	(10,381)
Other	<u>(1,359)</u>
Total	<u>\$ (7,917)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(1,752). Key elements of this change are as follows:

Water operations	\$ 840
Sewer operations	<u>(2,592)</u>
Total	<u>\$ (1,752)</u>

The reduction in the net position primarily results from current year depreciation (not funded in the rates) exceeding long-term debt principal payments (funded in the rates).

#### **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 \$38,182, a change of \$9,072 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 \$24,264 (including \$12,734 of general stabilization funds), while total fund balance was \$32,094. 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>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 24,264	\$ 21,038	\$ 3,226	9.6%
Total fund balance	32,094	25,971	6,123	12.7%

The total fund balance of the general fund changed by \$6,123 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	\$ (3,419)	\$ 590	\$ -	\$ -	\$ (2,829)
Revenues in excess of budget	3,005	-	-	-	3,005
Expenditures less than budget	3,619	-	-	-	3,619
Raising of prior year snow and ice deficit	374	-	-	-	374
Tax collections more than levy	1,073	-	-	-	1,073
Expenditures of prior year encumbrances in excess of current year encumbrances	(212)	-	-	-	(212)
Other	682	374	31	6	1,093
Total	\$ <u>5,122</u>	\$ <u>964</u>	\$ <u>31</u>	\$ <u>6</u>	\$ <u>6,123</u>

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

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization	\$ 12,734	\$ 11,770	\$ 964
Open space stabilization	384	353	31
Conservation	<u>70</u>	<u>64</u>	<u>6</u>
Total	\$ <u>13,188</u>	\$ <u>12,187</u>	\$ <u>1,001</u>

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

Unrestricted net position of the enterprise funds at the end of the year amounted to \$15,162, a decrease of \$(1,556) from the prior year, mainly as a result of current year depreciation expense in excess of paydowns on bonds. 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 \$2,519, due to a change in general government of \$(4) public safety of \$(101), education of \$229, public works of \$1,092, human services of \$23, culture and recreation of \$133, employee benefits of \$(498), debt service of \$(4), and transfers out of \$1,649. The additional appropriations were funded by the tax levy and transfers from other funds.

Revenues in excess of budget mainly consist of bond premiums, and excise revenues.

**F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end, amounted to \$391,729 (net of accumulated depreciation), a change of \$8,285 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, 2014 and 2013						
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 19,329	\$ 19,329	\$ 1,108	\$ 1,108	\$ 20,437	\$ 20,437
Buildings and improvements	121,835	123,806	28,058	24,429	149,893	148,235
Vehicles, machinery, and equipment	15,406	14,506	3,615	3,846	19,021	18,352
Infrastructure	36,619	32,825	153,737	151,427	190,356	184,252
Construction in progress	1,155	499	10,867	11,669	12,022	12,168
Total	<u>\$ 194,344</u>	<u>\$ 190,965</u>	<u>\$ 197,385</u>	<u>\$ 192,479</u>	<u>\$ 391,729</u>	<u>\$ 383,444</u>

Significant capital asset activity for fiscal year 2014 included:

- Sewer Improvements at Concord and School Streets were appropriated for \$5,557 and was substantially completed at the end of the fiscal year having incurred \$5,511 of expenditures. The design for wastewater pumping stations projects, appropriated for \$8,009 and started in the fall of 2007, has expended \$6,740.
- At the 2008 Annual Town Meeting, the Town authorized over \$21,000 in water capital projects and \$9,000 in sewer capital projects. \$2107 has been expended on Grove Street water pump station appropriated for \$2,932. In addition, \$2,183 and \$2,296 has been expended on the Prospect Street area water and sewer main replacement projects, originally appropriated for \$3,000 and \$2,783 respectfully.
- At the 2009 Annual Town Meeting, \$40,337 was an appropriated to construct the Birch Road water treatment center. The project proposes to re-activate 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. The Town had previously appropriated \$5,530. In total, \$7,312 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 for which \$34,814 has been issued which includes \$4,461 of ARRA funding. To date, \$40,044 has been expended on Phase I.
- At the 2010 Annual Town Meeting, \$17,967 was voted for additional water capital projects. Currently, \$4,316 has been expended from the \$9,619 appropriated for North Concord Street water mains project. Further, \$5,747 has been expended from the \$6,263 appropriation for Grant and Pond Streets 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. At year-end, \$4,076 has been expended on this project.
- At the 2011 Annual Town Meeting, \$2,680 and \$1,765 was authorized for the Downtown water and sewer utilities, and at year-end, \$941 and \$702 was expended, respectively. In addition, \$4,984 has been expended from the \$6,310 authorized for the North Framingham project and the Worcester Road pump stations appropriated for \$1,925 has had \$1,136 of expenditures.
- At the 2012 Annual Town Meeting, \$2,500 was authorized for roadway improvements which have been substantially expended. Water and sewer improvements at the intersections of Irving, Loring, and Herbert Streets

appropriated at \$1,795 and \$2,475 was still in its initial phase at the end of the fiscal year. \$210 was expended from the \$3,214 appropriation for Beebe water storage tanks; and \$2,189 was expended on the \$2,400 appropriation for East Framingham sewer improvements and Central Street Siphon Sudbury River projects.

- At a Spring 2013 Special Town Meeting, the Town authorized \$7,988 for the construction of the Christa McAuliffe Branch Library. These funds are in addition to the \$710 for a land purchase approved in January. A grant of \$4,186 was received from the Massachusetts Board of Library Commissioners to fund a portion of the project. The land was purchased for \$709 and \$579 has been incurred on architectural and related expenses.
- At the 2013 Annual Town Meeting, \$12,265 was appropriated for a variety of Town capital and major equipment projects, the largest being \$3,200 for roadway improvements of which \$2,743 has been expended. \$4,529 was appropriated for water capital and major equipment purchase of which \$2,990 was for the Warren Road and Prindiville water mains. \$25,630 was appropriated for sewer capital and major equipment purchases including \$17,220 for the Worcester Road pump station elimination project, \$6,563 for the Baiting Road sewer improvements and \$1,240 for Bethany Road sewer improvements for which \$103 has been expended on Bethany Road. The other projects are still in their initial stages.
- At the 2014 Annual Town Meeting, \$14,867 was appropriated for a variety of Town capital and major equipment projects the largest being \$4,000 for roadway improvements, \$1,000 for refuse collection bins and \$1,337 for automatic refuse packers to modernize the refuse collection operations. \$18,016 was appropriated for water capital and major equipment purchase of which \$3,325 for the Main Street area and \$12,145 for the Union Avenue area water mains. \$9,005 was appropriated for sewer capital and major equipment purchases including \$1,400 Waverly and Winthrop intersection realignment design and construction, \$1,880 Union Avenue sewer improvements and \$1,585 Elmfield Road sewer improvements.

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 \$216,100, 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, 2014 and 2013						
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
General obligation bonds	\$ 55,871	\$ 51,880	\$ 111,403	\$ 108,047	\$ 167,274	\$ 159,927
Bond anticipation notes	<u>7,817</u>	<u>9,583</u>	<u>41,009</u>	<u>35,154</u>	<u>48,826</u>	<u>44,737</u>
Total	<u>\$ 63,688</u>	<u>\$ 61,463</u>	<u>\$ 152,412</u>	<u>\$ 143,201</u>	<u>\$ 216,100</u>	<u>\$ 204,664</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 \$380,562, 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 4.5% (June), which is down from the 6.0% rate from June 2013. This compares to the State's unemployment rate of 5.5% and the national rate of 6.1%
- 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 2015 fiscal year.
- During the current fiscal year, unassigned fund balance in the general fund increased to \$24,264. In addition, the Town of Framingham has appropriated \$3,837 of "free cash" to finance the FY15 general fund operating budget of which \$640 for Stabilization and \$2,284 to a Capital Stabilization fund.
- In FY14, the Town transferred a net \$589 into the Stabilization fund, as well as, appropriated a transfer of \$640 for FY15. The Stabilization fund is currently maintained at 5% of the Town's operating budget.
- The \$11,761 of free cash certified by the Massachusetts Department of Revenue as of July 1, 2014 is available, subject to appropriation, to finance FY15 and FY16 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 POSITION

JUNE 30, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 49,675,601	\$ 21,225,525	\$ 70,901,126
Investments	20,910,655	-	20,910,655
Receivables, net of allowance for uncollectibles:			
Property taxes	1,457,933	-	1,457,933
Motor vehicle excise	1,013,194	-	1,013,194
User fees	191,370	13,169,344	13,360,714
Departmental and other	159,934	-	159,934
Intergovernmental	9,450,025	2,480,756	11,930,781
Assessments	-	2,229	2,229
Other assets	58,124	-	58,124
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax title	1,589,819	-	1,589,819
Departmental and other	1,038,850	-	1,038,850
Intergovernmental	9,825,655	1,124,831	10,950,486
Assessments	-	901,103	901,103
Land and construction in progress	20,484,116	11,974,972	32,459,088
Other capital assets, net of accumulated depreciation	173,860,278	185,410,468	359,270,746
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>438,500</u>	<u>-</u>	<u>438,500</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	290,154,054	236,289,228	526,443,282
<b>LIABILITIES</b>			
Current:			
Warrants payable	9,773,702	1,421,332	11,195,034
Accounts payable	76,187	14,592	90,779
Retainage payable	100,135	-	100,135
Accrued liabilities	14,090,787	768,838	14,859,625
Tax refunds payable	5,403,785	-	5,403,785
Notes payable	7,816,765	41,009,236	48,826,001
Other liabilities	196,273	-	196,273
Current portion of long-term liabilities:			
Bonds payable	9,308,618	7,847,156	17,155,774
Compensated absences	2,414,947	140,026	2,554,973
Other liabilities	75,642	196,955	272,597
Noncurrent:			
Bonds payable	46,562,343	103,556,430	150,118,773
Net OPEB obligation	90,652,850	3,383,221	94,036,071
Compensated absences	1,192,766	13,021	1,205,787
Other liabilities	1,553,833	3,513,778	5,067,611
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>306,717</u>	<u>277,199</u>	<u>583,916</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	189,525,350	162,141,784	351,667,134
<b>NET POSITION</b>			
Net investment in capital assets	133,338,277	58,985,142	192,323,419
Restricted for:			
Grants and other statutory restrictions	7,662,235	-	7,662,235
Permanent funds:			
Nonexpendable	585,195	-	585,195
Expendable	2,224,125	-	2,224,125
Unrestricted	<u>(43,181,128)</u>	<u>15,162,302</u>	<u>(28,018,826)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 100,628,704</u>	<u>\$ 74,147,444</u>	<u>\$ 174,776,148</u>

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 12,108,601	\$ 2,196,455	\$ 80,895	\$ 890,406	\$ (8,940,845)	\$ -	\$ (8,940,845)
Public safety	31,956,805	5,850,005	745,573	-	(25,361,227)	-	(25,361,227)
Education	161,375,792	5,029,787	68,968,515	837,312	(86,540,178)	-	(86,540,178)
Public works	16,239,400	474,987	336,937	2,540,138	(12,887,338)	-	(12,887,338)
Health and human services	1,791,292	130,463	542,122	-	(1,118,707)	-	(1,118,707)
Culture and recreation	7,849,747	997,332	164,495	-	(6,687,920)	-	(6,687,920)
Employee benefits	62,817,852	9,570,289	-	-	(53,247,563)	-	(53,247,563)
Interest	2,678,334	-	-	-	(2,678,334)	-	(2,678,334)
Intergovernmental	5,446,199	-	-	-	(5,446,199)	-	(5,446,199)
Total Governmental Activities	302,264,022	24,249,318	70,838,537	4,267,856	(202,908,311)	-	(202,908,311)
<b>Business-Type Activities:</b>							
Water services	16,300,910	18,578,765	-	-	-	2,277,855	2,277,855
Sewer services	24,094,530	22,464,787	-	27,072	-	(1,602,671)	(1,602,671)
Total Business-type Activities	40,395,440	41,043,552	-	27,072	-	675,184	675,184
Total Primary Government	\$ 342,659,462	\$ 65,292,870	\$ 70,838,537	\$ 4,294,928	(202,908,311)	675,184	(202,233,127)
<b>General Revenues and transfers:</b>							
Property taxes					167,504,332	-	167,504,332
Excises					7,557,468	-	7,557,468
Penalties, interest and other taxes					4,429,096	-	4,429,096
Grants and contributions not restricted to specific programs					9,025,832	-	9,025,832
Investment income					1,651,414	7,195	1,658,609
Miscellaneous					2,120,871	268,952	2,389,823
Transfers, net					2,702,778	(2,702,778)	-
Total general revenues and transfers					194,991,791	(2,426,631)	192,565,160
Change in Net Position					(7,916,520)	(1,751,447)	(9,667,967)
<b>Net Position:</b>							
Beginning of Year					108,545,224	75,898,891	184,444,115
End of Year					\$ 100,628,704	\$ 74,147,444	\$ 174,776,148

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 29,612,688	\$ 11,446,308	\$ 41,058,996
Investments	18,812,773	2,097,882	20,910,655
Receivables:			
Property taxes	4,601,973	-	4,601,973
Motor vehicle excise	2,692,895	-	2,692,895
User fees	-	191,370	191,370
Departmental and other	73,962	1,038,851	1,112,813
Intergovernmental	-	6,939,030	6,939,030
Other assets	58,124	-	58,124
TOTAL ASSETS	<u>\$ 55,852,415</u>	<u>\$ 21,713,441</u>	<u>\$ 77,565,856</u>
<b>LIABILITIES</b>			
Warrants payable	\$ 2,375,998	\$ 3,770,953	\$ 6,146,951
Accounts payable	-	76,187	76,187
Retainage payable	-	100,135	100,135
Accrued liabilities	8,838,842	488,887	9,327,729
Tax refunds payable	5,403,785	-	5,403,785
Notes payable	-	7,816,765	7,816,765
Other liabilities	167,021	29,252	196,273
TOTAL LIABILITIES	16,785,646	12,282,179	29,067,825
<b>DEFERRED INFLOWS OF RESOURCES</b>	6,973,323	3,342,957	10,316,280
<b>FUND BALANCES</b>			
Nonspendable	69,704	585,195	654,899
Restricted	57,670	11,979,231	12,036,901
Committed	2,179,314	55,178	2,234,492
Assigned	5,522,512	-	5,522,512
Unassigned	24,264,246	(6,531,299)	17,732,947
TOTAL FUND BALANCES	<u>32,093,446</u>	<u>6,088,305</u>	<u>38,181,751</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 55,852,415</u>	<u>\$ 21,713,441</u>	<u>\$ 77,565,856</u>

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

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

JUNE 30, 2014

<b>Total governmental fund balances</b>		\$ 38,181,751
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		194,344,394
• Noncurrent assets, including MSBA reimbursements for contracted assistance, are not receivable in the current period and, therefore, are not reported in the governmental funds.		12,336,650
• 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.		131,783
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.		7,082,358
• 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.		853,777
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(541,010)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable		(55,870,961)
Net OPEB obligation		(90,652,850)
Compensated absences liability		(3,607,713)
Premiums on bonds		<u>(1,629,475)</u>
<b>Net position of governmental activities</b>		<u>\$ 100,628,704</u>

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 168,452,607	\$ -	\$ 168,452,607
Excises	7,285,252	-	7,285,252
Penalties, interest and other taxes	4,429,096	-	4,429,096
Charges for services	2,533,875	8,611,443	11,145,318
Intergovernmental	67,845,964	18,865,734	86,711,698
Licenses and permits	2,962,358	74,175	3,036,533
Fines and forfeitures	457,681	14,954	472,635
Investment income	622,707	333,754	956,461
Contributions	-	534,642	534,642
Miscellaneous	1,065,737	315,551	1,381,288
	<u>255,655,277</u>	<u>28,750,253</u>	<u>284,405,530</u>
Total Revenues			
Expenditures:			
Current:			
General government	8,528,776	2,505,560	11,034,336
Public safety	25,940,977	2,995,141	28,936,118
Education	131,888,802	17,651,807	149,540,609
Public works	11,810,374	3,031,882	14,842,256
Human services	1,509,427	154,265	1,663,692
Culture and recreation	5,921,964	695,916	6,617,880
Employee benefits	51,255,806	-	51,255,806
Debt service	10,812,163	-	10,812,163
Intergovernmental	5,446,199	-	5,446,199
Capital outlay	-	11,277,857	11,277,857
	<u>253,114,488</u>	<u>38,312,428</u>	<u>291,426,916</u>
Total Expenditures			
Excess (Deficiency) of revenues over expenditures	2,540,789	(9,562,175)	(7,021,386)
Other Financing Sources (Uses):			
Proceeds from bond issuances	-	12,380,745	12,380,745
Premiums on bond issuances	1,010,253	-	1,010,253
Transfers in	2,874,564	302,931	3,177,495
Transfers out	(302,931)	(171,786)	(474,717)
	<u>3,581,886</u>	<u>12,511,890</u>	<u>16,093,776</u>
Total Other Financing Sources (Uses)			
Change in fund balance	6,122,675	2,949,715	9,072,390
Fund Balance, at Beginning of Year	<u>25,970,771</u>	<u>3,138,590</u>	<u>29,109,361</u>
Fund Balance, at End of Year	<u>\$ 32,093,446</u>	<u>\$ 6,088,305</u>	<u>\$ 38,181,751</u>

The accompanying notes are an integral part of these 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, 2014

<b>Net changes in fund balances - Total governmental funds</b>	<b>\$ 9,072,390</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 style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of disposals</td> <td style="text-align: right;">15,311,796</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(11,932,282)</td> </tr> </table> </li> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(515,049)</td> </tr> </table> </li> <li>• Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(2,510,995)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="margin-left: 40px;"> <tr> <td>Proceeds from debt</td> <td style="text-align: right;">(12,380,745)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">8,390,142</td> </tr> <tr> <td>Change in deferred debt amortization</td> <td style="text-align: right;">(93,615)</td> </tr> </table> </li> <li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(162,697)</td> </tr> </table> </li> <li>• Some expenses reported in the Statement of Activities, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="margin-left: 40px;"> <tr> <td>Increase in liability for compensated absences</td> <td style="text-align: right;">(407,159)</td> </tr> <tr> <td>Increase in net OPEB obligation</td> <td style="text-align: right;">(10,381,245)</td> </tr> <tr> <td>Increase in bond premium amortization</td> <td style="text-align: right;">(885,788)</td> </tr> </table> </li> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(1,421,273)</u></td> </tr> </table> </li> </ul>	Capital outlay purchases, net of disposals	15,311,796	Depreciation	(11,932,282)		(515,049)		(2,510,995)	Proceeds from debt	(12,380,745)	Repayments of debt	8,390,142	Change in deferred debt amortization	(93,615)		(162,697)	Increase in liability for compensated absences	(407,159)	Increase in net OPEB obligation	(10,381,245)	Increase in bond premium amortization	(885,788)		<u>(1,421,273)</u>	
Capital outlay purchases, net of disposals	15,311,796																								
Depreciation	(11,932,282)																								
	(515,049)																								
	(2,510,995)																								
Proceeds from debt	(12,380,745)																								
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Change in deferred debt amortization	(93,615)																								
	(162,697)																								
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Increase in net OPEB obligation	(10,381,245)																								
Increase in bond premium amortization	(885,788)																								
	<u>(1,421,273)</u>																								
<b>Change in net position of governmental activities</b>	<b>\$ <u>(7,916,520)</u></b>																								

The accompanying notes are an integral part of these 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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 166,614,499	\$ 168,188,499	\$ 168,188,499	\$ -
Excise	6,265,000	6,265,000	7,285,252	1,020,252
Penalties, interest and other taxes	4,239,000	4,239,000	4,429,096	190,096
Charges for services	2,334,300	2,334,300	2,533,725	199,425
Intergovernmental	44,503,248	44,503,248	44,819,280	316,032
Licenses and permits	2,120,000	2,120,000	2,962,508	842,508
Fines and forfeitures	400,000	400,000	457,681	57,681
Investment income	49,000	49,000	212,173	163,173
Miscellaneous	3,658,596	3,658,596	3,874,188	215,592
Transfers in	2,869,360	2,874,564	2,874,564	-
Other sources	2,479,390	3,419,390	3,419,390	-
<b>Total Revenues and Other Sources</b>	<b>235,532,393</b>	<b>238,051,597</b>	<b>241,056,356</b>	<b>3,004,759</b>
<b>Expenditures and Other Uses:</b>				
General government	8,731,134	8,727,328	8,210,999	516,329
Public safety	27,239,699	27,138,359	26,003,754	1,134,605
Education	110,469,323	110,698,196	110,661,264	36,932
Public works	11,185,112	12,277,212	11,971,394	305,818
Human services	1,571,408	1,594,611	1,504,115	90,496
Culture and recreation	5,908,825	6,041,925	5,939,871	102,054
Employee benefits	51,629,163	51,131,356	50,243,213	888,143
Debt service	11,283,800	11,279,681	10,833,461	446,220
Intergovernmental	5,544,882	5,544,882	5,446,199	98,683
Transfers out	1,540,260	3,189,260	3,189,260	-
Other uses	428,787	428,787	428,787	-
<b>Total Expenditures and Other Uses</b>	<b>235,532,393</b>	<b>238,051,597</b>	<b>234,432,317</b>	<b>3,619,280</b>
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 6,624,039	\$ 6,624,039

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

## TOWN OF FRAMINGHAM, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Water Fund	Sewer Fund	Total	
<b>ASSETS</b>				
Current:				
Cash and short-term investments	\$ 10,084,119	\$ 11,141,406	\$ 21,225,525	\$ 8,616,605
User fees, net of allowance for uncollectibles	6,006,146	7,163,198	13,169,344	-
Intergovernmental	-	2,480,756	2,480,756	-
Assessments	2,229	-	2,229	-
Other assets	-	-	-	85,971
Total current assets	16,092,494	20,785,360	36,877,854	8,702,576
Noncurrent:				
Intergovernmental	-	1,124,831	1,124,831	-
Assessments	901,103	-	901,103	-
Land and construction in progress	10,451,531	1,523,441	11,974,972	-
Other capital assets, net of accumulated depreciation	63,120,911	122,289,557	185,410,468	-
Total noncurrent assets	74,473,545	124,937,829	199,411,374	-
<b>TOTAL ASSETS</b>	90,566,039	145,723,189	236,289,228	8,702,576
<b>LIABILITIES</b>				
Current:				
Warrants payable	582,691	838,641	1,421,332	3,626,751
Accounts payable	13,887	705	14,592	-
Accrued liabilities	240,688	528,150	768,838	4,222,048
Notes payable	6,267,085	34,742,151	41,009,236	-
Current portion of long-term liabilities:				
Bonds payable	3,812,477	4,034,679	7,847,156	-
Compensated absences	87,316	52,710	140,026	-
Other liabilities	136,458	60,497	196,955	-
Total current liabilities	11,140,602	40,257,533	51,398,135	7,848,799
Noncurrent:				
Bonds payable	39,781,312	63,775,118	103,556,430	-
Net OPEB obligation	1,767,655	1,615,566	3,383,221	-
Compensated absences	8,989	4,032	13,021	-
Other liabilities	2,403,770	1,110,008	3,513,778	-
Total noncurrent liabilities	43,961,726	66,504,724	110,466,450	-
<b>DEFERRED INFLOWS OF RESOURCES</b>	255,933	21,266	277,199	-
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	55,358,261	106,783,523	162,141,784	7,848,799
<b>NET POSITION</b>				
Net investment in capital assets	28,665,472	30,319,670	58,985,142	-
Unrestricted	6,542,306	8,619,996	15,162,302	853,777
<b>TOTAL NET POSITION</b>	\$ 35,207,778	\$ 38,939,666	\$ 74,147,444	\$ 853,777

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<b>Operating Revenues:</b>				
Charges for services	\$ 18,422,989	\$ 22,342,218	\$ 40,765,207	\$ 41,785,951
Other	155,776	122,569	278,345	-
Total Operating Revenues	18,578,765	22,464,787	41,043,552	41,785,951
<b>Operating Expenses:</b>				
Salaries and wages	2,816,024	2,368,151	5,184,175	-
Operating expenses	1,699,468	2,080,112	3,779,580	43,777,708
Depreciation	2,594,061	6,983,594	9,577,655	-
Intergovernmental	7,666,336	10,691,353	18,357,689	-
Other	21,976	-	21,976	-
Total Operating Expenses	14,797,865	22,123,210	36,921,075	43,777,708
Operating Income	3,780,900	341,577	4,122,477	(1,991,757)
<b>Nonoperating Revenues (Expenses):</b>				
Investment income	4,846	2,349	7,195	570,484
Interest expense	(1,503,045)	(1,971,320)	(3,474,365)	-
Other nonoperating income	13,443	255,509	268,952	-
Total Nonoperating Revenues (Expenses), Net	(1,484,756)	(1,713,462)	(3,198,218)	570,484
Income (Loss) Before Capital Contributions and Transfers	2,296,144	(1,371,885)	924,259	(1,421,273)
Capital contributions	-	27,072	27,072	-
Transfers in	-	101,582	101,582	-
Transfers out	(1,455,692)	(1,348,668)	(2,804,360)	-
Change in Net Position	840,452	(2,591,899)	(1,751,447)	(1,421,273)
Net Position at Beginning of Year	34,367,326	41,531,565	75,898,891	2,275,050
Net Position at End of Year	\$ 35,207,778	\$ 38,939,666	\$ 74,147,444	\$ 853,777

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

## TOWN OF FRAMINGHAM, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<b>Cash Flows From Operating Activities:</b>				
Receipts from customers and users	\$ 18,429,276	\$ 21,920,775	\$ 40,350,051	\$ 41,764,347
Payments to vendors	(10,130,590)	(13,030,031)	(23,160,621)	(42,714,167)
Payments to employees	(2,675,863)	(2,209,450)	(4,885,313)	-
Net Cash Provided By Operating Activities	5,622,823	6,681,294	12,304,117	(949,820)
<b>Cash Flows From Noncapital Financing Activities:</b>				
Transfers in	-	101,582	101,582	-
Transfers out	(1,455,692)	(1,348,668)	(2,804,360)	-
Other nonoperating income	180,308	255,507	435,815	-
Net Cash (Used For) Noncapital Financing Activities	(1,275,384)	(991,579)	(2,266,963)	-
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Proceeds from issuance of bonds	4,205,627	7,081,754	11,287,381	-
Proceeds from issuance of short-term notes	6,267,085	42,869,409	49,136,494	-
Acquisition and construction of capital assets, net of disposals	(3,261,148)	(11,222,987)	(14,484,135)	-
Principal payments on bonds	(3,616,530)	(4,313,846)	(7,930,376)	-
Principal payments on short-term notes	(5,997,418)	(29,157,055)	(35,154,473)	-
Interest expense	(1,433,667)	(1,847,454)	(3,281,121)	-
Capital contributions	-	222,700	222,700	-
Net (Used For) Capital and Related Financing Activities	(3,836,051)	3,632,521	(203,530)	-
<b>Cash Flows From Investing Activities:</b>				
Investment income	4,846	2,349	7,195	570,484
Net Cash Provided By Investing Activities	4,846	2,349	7,195	570,484
Net Change in Cash and Short-Term Investments	516,234	9,324,585	9,840,819	(379,336)
Cash and Short-Term Investments, Beginning of Year	9,567,885	1,816,821	11,384,706	8,995,941
Cash and Short-Term Investments, End of Year	\$ 10,084,119	\$ 11,141,406	\$ 21,225,525	\$ 8,616,605
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>				
Operating income	\$ 3,780,900	\$ 341,577	\$ 4,122,477	\$ (1,991,757)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	2,594,061	6,983,594	9,577,655	-
Changes in assets and liabilities:				
User fees	(421,533)	(544,012)	(965,545)	-
Assessments	84,702	-	84,702	-
Other assets	210,250	-	210,250	(21,604)
Warrants payable	(720,733)	(688,037)	(1,408,770)	3,159,971
Accounts payable	(44,985)	(17,434)	(62,419)	-
Accrued liabilities	4,343	22,540	26,883	(2,096,430)
Other liabilities	-	446,905	446,905	-
Compensated absences	15,376	23,214	38,590	-
Net OPEB obligation	120,442	112,947	233,389	-
Net Cash Provided By Operating Activities	\$ 5,622,823	\$ 6,681,294	\$ 12,304,117	\$ (949,820)

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2014

	Other Post Employment <u>Trust Fund</u>	Pension Trust Fund (as of <u>December 31, 2013</u> )	Agency <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 13,811	\$ 1,216,944	\$ 6,842,298
Investments	2,502,824	242,598,940	173,413
Accounts receivable	<u>-</u>	<u>113</u>	<u>-</u>
Total Assets	2,516,635	243,815,997	7,015,711
<b>LIABILITIES AND NET ASSETS</b>			
Warrants payable	-	-	45,637
Deferred revenue	-	5,911,500	-
Other liabilities	<u>-</u>	<u>-</u>	<u>6,970,074</u>
Total Liabilities	<u>-</u>	<u>5,911,500</u>	<u>7,015,711</u>
Total Net Position Held in Trust For Pension Benefits	<u>\$ 2,516,635</u>	<u>\$ 237,904,497</u>	<u>\$ -</u>

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

TOWN OF FRAMINGHAM, MASSACHUSETTS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	Other Post Employment Trust Fund	Pension Trust Fund (for the year ended December 31, 2013)
<b>Additions:</b>		
Contributions:		
Employers	\$ 700,565	\$ 11,541,664
Plan members	-	6,416,250
Reimbursements from federal grants	-	70,023
Reimbursements from Commonwealth of Massachusetts	-	312,711
Reimbursements from other systems	-	339,350
Total contributions	<u>700,565</u>	<u>18,679,998</u>
Investment Income:		
Increase in fair value of investments	245,059	32,648,098
Less: management fees	-	(1,273,535)
Net investment income	<u>245,059</u>	<u>31,374,563</u>
Total additions	945,624	50,054,561
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	-	18,943,009
Reimbursements to other systems	-	372,305
Refunds and transfers of plan member accounts to other systems	-	1,825,043
Administrative expenses	-	325,182
Total deductions	<u>-</u>	<u>21,465,539</u>
Net increase	945,624	28,589,022
<b>Net position held in trust for pension benefits:</b>		
Beginning of Year	<u>1,571,011</u>	<u>209,315,475</u>
End of Year	<u>\$ 2,516,635</u>	<u>\$ 237,904,497</u>

The accompanying notes are an integral part of these 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 fiscal year 2014, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

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 Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of 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.

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, reported as an *internal service fund* in the accompanying financial statements, was converted from a self-insurance program to the GIC insurance plan starting in fiscal year 2015. The remaining balance in the fund is to pay unanticipated run-off claims.

The *Other Post-employment Trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.

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 were 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 2014 tax levy reflected an excess capacity of \$3,446,821.

#### *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, are 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 Position.

*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 position".

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., Town Meeting).
- 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 Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment 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 position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

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)	\$ 255,655,277	\$ 253,114,488
Other financing sources/uses (GAAP Basis)	<u>3,884,817</u>	<u>302,931</u>
Subtotal (GAAP Basis)	259,540,094	253,417,419
Adjust tax revenue to accrual basis	(1,072,723)	-
Reverse expenditures of prior year carryforwards	-	(1,897,051)
Add end-of-year appropriation carryforwards from expenditures	-	1,685,066
To reverse the effect of non- budgeted State contributions for teachers retirement	(21,232,607)	(21,232,607)
To reverse non-budgeted activity	402,202	2,030,703
Recognize other sources and uses	<u>3,419,390</u>	<u>428,787</u>
Budgetary Basis	<u>\$ 241,056,356</u>	<u>\$ 234,432,317</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2014:

Capital Project Funds:	
ADA Upgrades	\$ (134,064)
Paving Stormwater Study	(703,358)
Mechanical, Electrical, Plumbing	(20,686)
Paving Stormwater Study	(225,965)
Maynard/Memorial Bldg	(52,000)
Memorial/Maynard Bldg Improv	(876,156)
Inground Fuel Tank	(6)
Stormwater Management	(99,916)
Town Buildings	(4,750)
Town Building Security	(32,419)
Playground Safety Mulch	(20,520)
Maynard Building Drainage	(107,086)
Pearl Street Garage Repairs	(8,000)
Saxonville Levee Pump	(1,495)
Campello Road Drain	(12,836)
Repair Shop Make Up	(26,000)
FY14 Roadway Improvements	(2,743,849)
Beaver Dam Brook	(228,014)
FY14 Traffic Calming	(48,630)
Memorial Building Study	(40,121)
Athenaeum Hall Study	(26,995)
Network Infrastructure Improvements	(3,576)
Mobile Field Inspection	(1,490)
Aerial Bucket Truck	(198,301)
Protective Cloth Replacement	(54,764)
Zamboni	(120,934)
Toro Grandmaster 580-D 4	(3,945)
8,800 GWW	(285)
Sidewalk Tractor	(146,757)
Loader Plow	(12,255)
Sander Copsprd	(5,500)
Cab Chs Rll	(200,971)
Public Safety Server	(84,674)
Archived Doc Scan	(4,114)
Special Revenue Funds:	
Community Development Block Grant	(47,525)
West Metro HOME Consortium	(41,065)
Department of Housing Community Service	(24,342)
EPA Brownsfield Grant	(47,845)
Mass Executive Office of Public Safety	(89,229)
Mass DOT Grants	(598)
M/W Health FHS Clinical Care	(9,039)
NIH/NEVUS Study	(21,224)
Total	\$ <u>(6,531,299)</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, 2014 and December 31, 2013, \$26,767,151 and \$1,190,968 of the Town's and System's bank balances of \$79,302,134 and \$1,613,979 respectively, was exposed to custodial credit risk as uninsured or uncollateralized.

Of the Town's balance exposed to custodial credit risk, \$14,923,322 is on deposit with Massachusetts Municipal Depository Trust.

Of the System's balance exposed to custodial credit risk, \$1,014,164 is on deposit with the Pension Reserve Investment Trust and \$176,804 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>A2</u>	<u>BBB</u>	<u>Not Rated</u>
Corporate stocks	\$ 6,378	\$ -	\$ -	\$ -	\$ 6,378
Corporate bonds	1,294	-	1,294	-	-
Certificate of deposit	6,990	-	-	-	6,990
Mutual funds	5,119	-	-	-	5,119
US Treasury notes	1,509	1,509	-	-	-
Federal agency securities	2,297	2,297	-	-	-
<b>Total investments</b>	<b>\$ 23,587</b>	<b>\$ 3,806</b>	<b>\$ 1,294</b>	<b>\$ -</b>	<b>\$ 18,487</b>

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, 2013, the Contributory Retirement System maintained its investments in the State Investment Pool\* with a fair value of \$242,598,940. 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.

The Town's investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments, was \$1,345,520 held in Federal Home Loan Bank notes.

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	\$ 1,294	\$ -	\$ 1,294	\$ -	\$ -
Certificate of deposit	6,990	2,009	4,981	-	-
US Treasury notes	1,509	-	1,509	-	-
Federal agency securities	2,297	-	2,297	-	-
<b>Total</b>	<b>\$ 12,090</b>	<b>\$ 2,009</b>	<b>\$ 10,081</b>	<b>\$ -</b>	<b>\$ -</b>

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, 2014 consist of the following (in thousands):

Real Estate		
2014	\$ 1,171	
2013	34	
2012	27	
2011	20	
Prior	<u>15</u>	
		1,267
Personal Property		
2014	15	
2013	20	
2012	25	
2011	35	
Prior	<u>313</u>	
		408
Tax Liens		2,484
Deferred Taxes		<u>443</u>
Total		<u>\$ 4,602</u>

**6. Allowance for Doubtful Accounts**

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

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 1,554	\$ -
Excises	\$ 1,680	\$ -
Utilities	\$ -	\$ 175

**7. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014, 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 2014:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
<u>Governmental Funds:</u>			
General Fund	\$ 2,874,564	\$ 302,931	\$ 2,571,633
Nonmajor Governmental Funds	<u>302,931</u>	<u>171,786</u>	<u>131,145</u>
Subtotal - Governmental	3,177,495	474,717	2,702,778
<u>Proprietary Funds:</u>			
Water Enterprise Fund	-	1,455,692	(1,455,692)
Sewer Enterprise Fund	<u>101,582</u>	<u>1,348,668</u>	<u>(1,247,086)</u>
Subtotal - Proprietary	<u>101,582</u>	<u>2,804,360</u>	<u>(2,702,778)</u>
Total	<u>\$ 3,279,077</u>	<u>\$ 3,279,077</u>	<u>\$ -</u>

Transfers to the General Fund from the Water and Sewer funds are to cover indirect costs incurred by the General Fund.

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2014 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	\$ 196,488	\$ 4,076	\$ -	\$ 200,564
Vehicles, machinery, equipment and furnishings	45,913	4,422	-	50,335
Infrastructure	<u>53,986</u>	<u>6,157</u>	<u>-</u>	<u>60,143</u>
Total capital assets, being depreciated	296,387	14,655	-	311,042
Less accumulated depreciation for:				
Buildings and improvements	(72,682)	(6,047)	-	(78,729)
Vehicles, machinery, equipment and furnishings	(31,407)	(3,522)	-	(34,929)
Infrastructure	<u>(21,161)</u>	<u>(2,363)</u>	<u>-</u>	<u>(23,524)</u>
Total accumulated depreciation	<u>(125,250)</u>	<u>(11,932)</u>	<u>-</u>	<u>(137,182)</u>
Total capital assets, being depreciated, net	171,137	2,723	-	173,860
Capital assets, not being depreciated:				
Land	19,329	-	-	19,329
Construction in progress	<u>499</u>	<u>656</u>	<u>-</u>	<u>1,155</u>
Total capital assets, not being depreciated	<u>19,828</u>	<u>656</u>	<u>-</u>	<u>20,484</u>
Governmental activities capital assets, net	<u>\$ 190,965</u>	<u>\$ 3,379</u>	<u>\$ -</u>	<u>\$ 194,344</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	\$ 30,075	\$ 4,713	\$ -	\$ 34,788
Vehicles, machinery, equipment and furnishings	10,476	574	-	11,050
Infrastructure	<u>198,312</u>	<u>9,998</u>	<u>-</u>	<u>208,310</u>
Total capital assets, being depreciated	238,863	15,285	-	254,148
Less accumulated depreciation for:				
Capital assets, being depreciated:				
Buildings and improvements	(5,646)	(1,084)	-	(6,730)
Vehicles, machinery, equipment and furnishings	(6,630)	(805)	-	(7,435)
Infrastructure	<u>(46,885)</u>	<u>(7,689)</u>	<u>1</u>	<u>(54,573)</u>
Total accumulated depreciation	<u>(59,161)</u>	<u>(9,578)</u>	<u>1</u>	<u>(68,738)</u>
Total capital assets, being depreciated, net	179,702	5,707	1	185,410
Capital assets, not being depreciated:				
Land	1,108	-	-	1,108
Construction in progress	<u>11,669</u>	<u>1,086</u>	<u>(1,888)</u>	<u>10,867</u>
Total capital assets, not being depreciated	<u>12,777</u>	<u>1,086</u>	<u>(1,888)</u>	<u>11,975</u>
Business-type activities capital assets, net	<u>\$ 192,479</u>	<u>\$ 6,793</u>	<u>\$ (1,887)</u>	<u>\$ 197,385</u>

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

Governmental Activities:	
General government	\$ 1,165
Public safety	1,379
Education	4,848
Public works	3,511
Health and human services	115
Culture and recreation	<u>914</u>
Total depreciation expense - governmental activities	<u>\$ 11,932</u>
Business-Type Activities:	
Water	\$ 2,594
Sewer	<u>6,984</u>
Total depreciation expense - business-type activities	<u>\$ 9,578</u>

**10. Deferred Outflows of Resources**

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

The following is a summary of deferred outflow of resources balances as of June 30, 2014 (in thousands):

	<u>Entity-wide Basis</u>
	Governmental
	<u>Activities</u>
Loss on bond refunding	\$ <u>439</u>

**11. Warrants and Accounts Payable**

Warrants payable represent 2014 expenditures paid by July 15, 2014. Accounts payable represent additional 2014 expenditures paid after July 15, 2014.

**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, 2014:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/14</u>
Bond anticipation	0.17%	12/13/13	12/12/14	\$ 27,478,989
Bond anticipation	0.90%	06/17/14	12/12/14	12,379,410
State revolving loan	0.13%	06/01/12	project completion	3,142,896
State revolving loan	0.00%	11/08/12	project completion	133,266
State revolving loan	0.13%	06/15/13	project completion	3,515,998
State revolving loan	0.11%	03/31/14	project completion	<u>2,175,442</u>
Total				<u>\$ 48,826,001</u>

The following summarizes activity in notes payable during fiscal year 2014:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 24,809,365	\$ -	\$ (24,809,365)	\$ -
Bond anticipation	13,135,758	-	(13,135,758)	-
Bond anticipation	-	27,478,989	-	27,478,989
Bond anticipation	-	12,379,410	-	12,379,410
State revolving loan	3,142,896	-	-	3,142,896
State revolving loan	133,266	-	-	133,266
State revolving loan	3,515,998	-	-	3,515,998
State revolving loan	-	2,175,442	-	2,175,442
Total	<u>\$ 44,737,283</u>	<u>\$ 42,033,841</u>	<u>\$ (37,945,123)</u>	<u>\$ 48,826,001</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>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/14</u>
General obligation	03/25	3.79%	\$ 1,518,400
General obligation	03/24	3.79%	750,500
General obligation	08/14	4.00%	675,000
General obligation	03/24	3.79%	634,600
General obligation	02/19	4.34%	4,920,500
General obligation	03/23	3.00%	79,000
General obligation	11/23	0.00%	250,000
General obligation	03/20	5.51%	5,233,500
General obligation	03/24	3.00%	543,050
General obligation	03/15	3.00%	309,311
General obligation	06/26	4.08%	733,000
General obligation	11/27	3.84%	2,150,000
General obligation	07/27	2.00%	220,895
General obligation	06/24	3.00%	3,510,000
General obligation	06/30	3.00%	3,268,000
General obligation	07/30	2.00%	269,460
General obligation	06/31	3.63%	11,460,000
General obligation	12/32	3.45%	6,965,000
General obligation	12/38	3.24%	<u>12,380,745</u>
Total Governmental Activities			<u>\$ 55,870,961</u>

<u>Business-Type Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/14</u>
Water (MWRA)	03/23	3.00%	\$ 154,300
Sewer	03/25	3.79%	309,900
Sewer (MWRA)	06/15	2.54%	32,332
Water	03/24	3.00%	1,608,400
Sewer	03/15	3.00%	42,793
Water	03/15	3.00%	57,896
Sewer (MWPAT)	03/24	0.00%	180,970
Water	03/25	3.79%	751,850
Water (MWRA)	02/15	0.00%	144,900
Water (MWRA)	02/16	0.00%	399,820
Water	06/26	4.08%	1,392,000
Sewer	06/26	4.08%	675,000
Sewer	11/27	3.84%	2,130,000
Water	11/27	3.84%	295,000
Sewer	07/27	2.00%	6,801,718
Sewer (MWPAT)	07/28	2.00%	345,155
Sewer (MWPAT)	07/28	2.00%	1,682,037
Water	06/24	3.00%	85,000
Water	06/30	3.53%	5,350,000
Sewer	06/30	3.53%	217,000
Sewer (MWPAT)	07/30	2.00%	1,322,597
Sewer (MWPAT)	07/27	2.00%	105,781
Sewer (MWPAT)	07/30	2.00%	164,123
Sewer (MWPAT)	07/30	2.00%	2,862,663
Sewer (MWPAT)	07/30	2.00%	3,282,343
Sewer (MWPAT)	07/30	2.00%	7,389,186
Sewer (MWPAT)	07/30	2.00%	271,761
Water	06/31	3.63%	6,185,000
Sewer	06/31	3.63%	5,920,000
Sewer (MWRA)	11/16	0.00%	254,960
Sewer (MWPAT)	07/28	2.00%	6,124
Sewer (MWPAT)	07/32	2.00%	22,818,568
Water (MWRA)	11/22	0.00%	5,133,996
Water	12/32	3.45%	17,830,000
Sewer	12/32	3.45%	2,435,000
Sewer (MWPAT)	07/30	2.00%	1,478,032
Water	12/38	3.24%	4,205,627
Sewer	12/38	3.24%	6,767,628
Sewer (MWPAT)	12/38	0.00%	314,126
<b>Total Business-Type Activities</b>			<b>\$ <u>111,403,586</u></b>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 9,308,618	\$ 2,038,552	\$ 11,347,170
2016	7,405,211	1,750,095	9,155,306
2017	6,811,622	1,464,732	8,276,354
2018	5,977,094	1,225,655	7,202,749
2019	4,914,377	1,001,939	5,916,316
2020 - 2024	13,935,609	2,800,558	16,736,167
2025 - 2029	6,231,794	696,832	6,928,626
2030 - 2034	<u>1,286,636</u>	<u>91,727</u>	<u>1,378,363</u>
Total	<u>\$ 55,870,961</u>	<u>\$ 11,070,090</u>	<u>\$ 66,941,051</u>

The general fund has been designated as the source to repay the governmental-type general obligation debt outstanding as of June 30, 2014.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 7,847,156	\$ 3,135,713	\$ 10,982,869
2016	6,896,494	2,940,666	9,837,160
2017	6,630,140	2,750,204	9,380,344
2018	6,532,957	2,559,036	9,091,993
2019	6,551,036	2,350,298	8,901,334
2020 - 2024	31,866,228	8,756,352	40,622,580
2025 - 2029	27,814,571	4,439,944	32,254,515
2030 - 2034	15,500,004	1,182,685	16,682,689
2034 - 2038	<u>1,765,000</u>	<u>182,937</u>	<u>1,947,937</u>
Total	<u>\$ 111,403,586</u>	<u>\$ 28,297,835</u>	<u>\$ 139,701,421</u>

**C. Bond Authorizations**

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2014 are as follows:

<u>Purpose</u>	<u>Amount</u>
Wastewater Pump	\$ 838,534
Grove Street Water Pump	649,836
Prospect St Wtr Main	725,000
N Concord St Wtr Design	575,000
Concord Street Purchase	1,750,000
Birch Rd Well	38,237,900
N Concord St Wtr Main Replacement	3,910,583
Goodnow Wtr Pump Station	1,385,000
Grant/Pond St Sewer Replacement	2,228,086
Downtown Water Utilities	992,542
Downtown Sewer Utilities	665,000
North Framingham Pump Station	742,104
Worcester Road Pump Station	625,000
Irving Loring Herbert	1,441,590
Beebe Water Tank	2,536,000
Wastewater Backup Upgrades	545,000
Hancock Lane Pump	759,666
Irving Herbert Loring	2,120,000
McAulife Branch Library	4,511,769
Cushing Memorial Park Phase 5	595,000
Bethany Rd & Winthrop/Waverly Inters Improvmts	755,000
Warren Road & Prindiville Water Main	2,989,476
Worc Rd Pump Stn Elimination Project Construction	15,220,000
Baiting Brook Sewer Improvements	6,563,000
Bethany Rd & Winthrop/Waverly Inters SWR Improv	740,000
Replace Engine 5	570,981
FY15 Roadway Improvements	4,000,000
Refuse Clctn Carts	1,000,000
4 Packers 511-514	1,337,440
Technology Upgrades	950,000
Paving/Stormwater 15	600,000
Main Street Area Wtr Imp	3,325,000
Union Ave Wtr Mains	12,145,000
Speen & Chtuate Wtr	640,000
Salem End Rd Wtr Mns	690,000
Wavrly/Winthrop Design	1,400,000
Main Street Area Swr Imp	866,000
Union Ave Swr Improv	1,880,000
Old Danforth St Swr	700,000
Eastlgh Ltle Frm PS	810,000
Elmfield Rd Swr Impr	1,585,000
Other (109 individual projects)	14,988,612
Total	\$ <u>139,589,119</u>

*D. Overlapping Debt*

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

<u>Related Entity</u>	<u>Principal</u>		<u>Town's Estimated Share</u>
MWRA - Water	\$ 2,116,827	3.76%	\$ 79,593
MWRA - Sewer	4,033,856	2.80%	112,948
MBTA and MWRTA	5,561,383	0.31%	<u>17,240</u>
			<u>\$ 209,781</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, 2014 (in thousands):

Revised equalized valuation - FY2014		\$ <u>7,611,238</u>
Debt limit - 5% of equalized valuation		\$ 380,562
Total debt outstanding	167,275	
Less: debt exempt from limit	<u>(68,417)</u>	<u>98,858</u>
Legal Debt Margin		\$ <u>281,704</u> *

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

*F. Debt Refunding*

Prior Year

In the prior year, the Town defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in March 2015. 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, 2014, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$880,000.

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

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/13</u>	Additions	Reductions	Total Balance <u>6/30/14</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/14</u>
<b><u>Governmental Activities</u></b>						
Bonds payable	\$ 51,880	\$ 12,381	\$ (8,390)	\$ 55,871	\$ (9,309)	\$ 46,562
Net OPEB obligation	80,271	22,337	(11,955)	90,653	-	90,653
Accrued employee benefits	3,200	437	(29)	3,608	(2,415)	1,193
Other liabilities	<u>744</u>	<u>923</u>	<u>(37)</u>	<u>1,630</u>	<u>(76)</u>	<u>1,554</u>
Totals	<u>\$ 136,095</u>	<u>\$ 36,078</u>	<u>\$ (20,411)</u>	<u>\$ 151,762</u>	<u>\$ (11,800)</u>	<u>\$ 139,962</u>

	Total Balance <u>7/1/13</u>	Additions	Reductions	Total Balance <u>6/30/14</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/14</u>
<b><u>Business-Type Activities</u></b>						
Bonds payable	\$ 108,046	\$ 10,973	\$ (7,616)	\$ 111,403	\$ (7,847)	\$ 103,556
Net OPEB obligation	3,150	502	(269)	3,383	-	3,383
Accrued employee benefits	114	39	-	153	(140)	13
Other liabilities	<u>3,056</u>	<u>818</u>	<u>(163)</u>	<u>3,711</u>	<u>(197)</u>	<u>3,514</u>
Totals	<u>\$ 114,366</u>	<u>\$ 12,332</u>	<u>\$ (8,048)</u>	<u>\$ 118,650</u>	<u>\$ (8,184)</u>	<u>\$ 110,466</u>

**15. Deferred Inflows of Resources**

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

The following is a summary of deferred inflow of resources balances as of June 30, 2014 (in thousands):

	Entity-wide Basis		Fund Basis			
	Governmental Activities	Business-type Activities	Governmental Funds General Fund	Nonmajor	Proprietary Funds Water	Sewer
Unavailable revenues	\$ -	\$ -	\$ 6,973	\$ 3,343	\$ -	\$ -
Gain on bond refunding	<u>307</u>	<u>277</u>	<u>-</u>	<u>-</u>	<u>256</u>	<u>21</u>
Total	<u>\$ 307</u>	<u>\$ 277</u>	<u>\$ 6,973</u>	<u>\$ 3,343</u>	<u>\$ 256</u>	<u>\$ 21</u>

## 16. **Restricted Net Position**

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

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

## 17. **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, 2014:

**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, 2014:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Prepaid expenditures	\$ 69,154	\$ -	\$ 69,154
Petty cash	550	-	550
Nonexpendable permanent funds	-	585,195	585,195
Total Nonspendable	69,704	585,195	654,899
Restricted			
Debt service	57,670	-	57,670
Bonded projects			
Bowditch Master Plan	-	1,042,398	1,042,398
McAuliffe Branch Library	-	385,041	385,041
Other projects	-	665,432	665,432
Special revenue funds			
State special ed reimb fund	-	941,380	941,380
Government access cabletelevision	-	933,808	933,808
School food service	-	688,821	688,821
Civic use - television	-	536,798	536,798
Tuition - blocks	-	617,262	617,262
Sale of real estate	-	264,518	264,518
Other special revenue funds	-	3,679,649	3,679,649
Expendable permanent funds			
Edgell Grove Cemetery trust	-	1,213,603	1,213,603
Scott trust fund	-	363,125	363,125
Other expendable permanent funds	-	647,396	647,396
Total Restricted	57,670	11,979,231	12,036,901
Committed			
Articles	1,726,086	-	1,726,086
Open Space conservation stabilization	453,228	-	453,228
Capital project funds	-	55,178	55,178
Total Committed	2,179,314	55,178	2,234,492

(continued)

(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assigned			
Encumbered for:			
General government	792,962	-	792,962
Public works	376,987	-	376,987
Employee benefits	331,782	-	331,782
Other	183,335	-	183,335
For next year's expenditures	<u>3,837,446</u>	<u>-</u>	<u>3,837,446</u>
Total Assigned	5,522,512	-	5,522,512
Unassigned <sup>(1)</sup>	<u>24,264,246</u>	<u>(6,531,299)</u>	<u>17,732,947</u>
Total Unassigned	<u>24,264,246</u>	<u>(6,531,299)</u>	<u>17,732,947</u>
Total Fund Balance	<u>\$ 32,093,446</u>	<u>\$ 6,088,305</u>	<u>\$ 38,181,751</u>

<sup>(1)</sup> Includes General Stabilization fund balance of \$12,733,744.

## 18. 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:

Unassigned GAAP basis balance	\$ 24,264,246
Less: General Stabilization	(12,733,744)
Unfunded tax refund estimate	<u>3,976,989</u>
Statutory (UMAS) Balance	<u>\$ 15,507,491</u>

## 19. Subsequent Events

### Debt

Subsequent to June 30, 2014, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation	\$ 20,974,000	3.94%	12/11/14	12/01/39
Bond anticipation note	\$ 20,967,117	0.17%	12/12/14	12/11/15

## 20. 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.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to the Town's counsel, the probable outcome of these cases at the present time is indeterminable.

## 21. 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 Position over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2014, the actuarial valuation date, approximately 1,495 retirees and 1,695 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 2014 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, 2014, 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, 2014.

Annual Required Contribution (ARC)	\$ 22,337,884
Interest on net OPEB obligation	3,107,594
Adjustment to ARC	<u>(2,606,523)</u>
Annual OPEB cost	22,838,955
Contributions made	<u>(12,224,321)</u>
Increase in net OPEB obligation	10,614,634
Net OPEB obligation - beginning of year	<u>83,421,437</u>
Net OPEB obligation - end of year	<u>\$ 94,036,071</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>
2014	\$22,838,955	53.5%	\$94,036,071
2013	\$22,589,477	57.1%	\$83,421,437
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, 2014, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 288,645,545
Actuarial value of plan assets (7/1/14)	<u>(2,516,635)</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 286,128,910</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0.9%</u>
Covered payroll (active plan members)	<u>\$ 111,670,636</u>
UAAL as a percentage of covered payroll	<u>256%</u>

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

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical

pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 8% 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 4.0%.

**22. 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, 2013:

Retirees and beneficiaries receiving benefits	767
Terminated plan members entitled to but not yet receiving benefits	270
Active plan members	<u>1,130</u>
Total	<u><u>2,167</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</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
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%
2013	\$ 10,729,968	100%
2014	\$ 11,823,000	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]
01/01/12	\$208,294	\$309,696	\$101,402	67.3%	\$51,902	195%

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 \$101.4 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, 2013, the unfunded actuarially accrued liability is being amortized over 17 years using a 5.00% 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 2014, the Commonwealth of Massachusetts contributed \$21,232,607 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

## **23. 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 \$150,000 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, 2014 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 6,318,478
Claims incurred/recognized in fiscal year 2014	43,777,708
Claims paid in fiscal year 2014	<u>(45,874,138)</u>
Claims liability, end of year	\$ <u>4,222,048</u>

The \$4,222,048 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.

#### **24. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the 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.

#### **25. 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 Contributory Retirement System's actuarially accrued liability.

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

**June 30, 2014**

**(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%
1/1/2012	\$ 208,294	\$ 309,696	\$ 101,402	67.3%	\$ 51,902	195%

**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%
07/01/12	\$ -	\$ 327,067	\$ 327,067	0.0%	\$ 104,423	313%
07/01/14	\$ 2,516	\$ 288,645	\$ 286,129	0.9%	\$ 111,671	256%

See Independent Auditors' Report.