

**TOWN OF
FRAMINGHAM, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2015

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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, 2015 (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2014), 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, 2015 (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2014), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Contributions, the Schedule of Changes in Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns 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 7, 2016 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 7, 2016

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, 2015. 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 \$84,667,667 (i.e., net position), a change of \$614,519 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$35,785,791, a change of \$(2,395,960) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$20,971,228, a change of \$(3,293,018) in comparison to the prior year, while committed fund balance was \$8,645,420, a change of \$6,466,106 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$179,228,471, a change of \$11,953,924 in comparison to the prior year. The Town also had \$40,556,882 in bond anticipation notes outstanding at year-end.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	NET POSITION					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 96,269	\$ 95,371	\$ 35,886	\$ 38,904	\$ 132,155	\$ 134,275
Deferred outflows of resources	791	439	9	-	800	439
Capital assets	203,675	194,344	203,251	197,385	406,926	391,729
Total assets and deferred outflows	300,735	290,154	239,146	236,289	539,881	526,443
Long-term liabilities outstanding	246,356	151,761	135,502	118,651	381,858	270,412
Notes payable	12,744	7,817	27,813	41,009	40,557	48,826
Deferred inflows of resources	279	307	252	277	531	584
Other liabilities	28,761	29,640	3,506	2,205	32,267	31,845
Total liabilities and deferred inflows	288,140	189,525	167,073	162,142	455,213	351,667
Net position:						
Net investment in capital assets	137,099	133,338	56,997	58,985	194,096	192,323
Restricted	12,966	10,472	-	-	12,966	10,472
Unrestricted	(137,470)	(43,181)	15,076	15,162	(122,394)	(28,019)
Total net position	\$ 12,595	\$ 100,629	\$ 72,073	\$ 74,147	\$ 84,668	\$ 174,776

CHANGES IN NET POSITION

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 18,246	\$ 16,922	\$ 42,654	\$ 41,044	\$ 60,900	\$ 57,966
Operating grants and contributions	64,589	70,839	-	-	64,589	70,839
Capital grants and contributions	5,231	4,268	892	27	6,123	4,295
General revenues:						
Property taxes	171,625	167,504	-	-	171,625	167,504
Excises	7,509	7,558	-	-	7,509	7,558
Penalties, interest and other taxes	4,579	4,429	-	-	4,579	4,429
Grants and contributions not restricted to specific programs	9,206	9,026	-	-	9,206	9,026
Investment income	589	1,651	8	7	597	1,658
Miscellaneous	2,314	2,121	457	269	2,771	2,390
Total revenues	<u>283,888</u>	<u>284,318</u>	<u>44,011</u>	<u>41,347</u>	<u>327,899</u>	<u>325,665</u>
Expenses:						
General government	11,767	12,109	-	-	11,767	12,109
Public safety	33,796	31,957	-	-	33,796	31,957
Education	157,198	161,376	-	-	157,198	161,376
Public works	21,165	16,239	-	-	21,165	16,239
Human services	2,122	1,791	-	-	2,122	1,791
Culture and recreation	7,762	7,850	-	-	7,762	7,850
Employee benefits	43,528	55,491	-	-	43,528	55,491
Interest	2,340	2,678	-	-	2,340	2,678
Intergovernmental	6,269	5,446	-	-	6,269	5,446
Water	-	-	16,607	16,301	16,607	16,301
Sewer	-	-	24,731	24,095	24,731	24,095
Total expenses	<u>285,947</u>	<u>294,937</u>	<u>41,338</u>	<u>40,396</u>	<u>327,285</u>	<u>335,333</u>
Change in net position before transfers	(2,059)	(10,619)	2,673	951	614	(9,668)
Transfers in (out)	<u>2,888</u>	<u>2,703</u>	<u>(2,888)</u>	<u>(2,703)</u>	<u>-</u>	<u>-</u>
Change in net position	829	(7,916)	(215)	(1,752)	614	(9,668)
Net position - beginning of year restated	<u>11,766</u>	<u>108,545</u>	<u>72,288</u>	<u>75,899</u>	<u>84,054</u>	<u>184,444</u>
Net position - end of year	<u>\$ 12,595</u>	<u>\$ 100,629</u>	<u>\$ 72,073</u>	<u>\$ 74,147</u>	<u>\$ 84,668</u>	<u>\$ 174,776</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 \$84,667,667, a change of \$614,519 from the prior year.

The largest portion of net position, \$194,095,667 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, \$12,966,137 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position deficit of \$(122,394,137) primarily results from the Town's unfunded net pension and OPEB liabilities.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$829,402. Key elements of this change are as follows (in thousands):

Excess of revenues over (under) expenditures:	
General fund	\$ 1,764
Internal service fund	287
General fund transfers from enterprise funds, net	<u>2,888</u>
Subtotal	4,939
Capital assets acquired with current year capital grants	1,405
Increase in net OPEB obligation	(9,256)
Decrease in net pension liability	2,510
Other	<u>1,231</u>
Total	<u>\$ 829</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(214,883). Key elements of this change are as follows (in thousands):

Water operations	\$ 1,226
Sewer operations	<u>(1,441)</u>
Total	<u>\$ (215)</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 \$35,785,791, a change of \$(2,395,960) in comparison to the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$20,971,228 (including \$13,585,084 of general stabilization funds), while total fund balance was \$36,456,820. 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 (in thousands).

<u>General Fund</u>	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 20,971	\$ 24,264	\$ (3,293)	8.8%
Total fund balance	\$ 36,457	\$ 32,093	\$ 4,364	15.2%

The total fund balance of the general fund changed by \$4,363,374 during the current fiscal year. Key factors in this change are as follows (in thousands):

<u>General Fund Highlights</u>	<u>General Fund Components</u>					
	<u>Operating</u>	<u>General Stabilization</u>	<u>Open Space Stabilization</u>	<u>Capital Stabilization</u>	<u>Conservation</u>	<u>General Fund</u>
Use of other funding sources, net of transfers to stabilization	\$ (4,547)	\$ 640	\$ -	\$ 2,284	\$ -	\$ (1,623)
Revenues in excess of budget	3,272	-	-	-	-	3,272
Expenditures less than budget	4,181	-	-	-	-	4,181
Raising of prior year snow and ice deficit	220	-	-	-	-	220
Tax collections more than levy	21	-	-	-	-	21
Expenditures of prior year encumbrances in excess of current year encumbrances	(1,246)	-	-	-	-	(1,246)
Transfer to capital project fund	-	-	(275)	-	-	(275)
Other	(590)	211	31	159	2	(187)
Total	\$ <u>1,311</u>	\$ <u>851</u>	\$ <u>(244)</u>	\$ <u>2,443</u>	\$ <u>2</u>	\$ <u>4,363</u>

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

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
General stabilization	\$ 13,585	\$ 12,734	\$ 851
Open space stabilization	140	384	(244)
Capital stabilization	2,443	-	2,443
Conservation	<u>71</u>	<u>69</u>	<u>2</u>
Total	<u>\$ 16,239</u>	<u>\$ 13,187</u>	<u>\$ 3,052</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 \$15,076,160, a decrease of \$(86,142) 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 \$715,009, due to a change in general government of \$5,764 and education of \$709,245. The additional appropriations were funded by free cash and transfers from other funds.

Revenues in excess of budget mainly consist of building permits, Medicaid reimbursements, and mitigation general fund 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 \$406,926,209 (net of accumulated depreciation), a change of \$15,196,375 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 (in thousands):

<u>CAPITAL ASSETS</u> (net of depreciation) June 30, 2015 and 2014						
	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 20,032	\$ 19,329	\$ 1,108	\$ 1,108	\$ 21,140	\$ 20,437
Buildings and improvements	117,819	121,835	30,808	28,058	148,627	149,893
Vehicles, machinery, and equipment	19,098	15,406	3,927	3,615	23,025	19,021
Infrastructure	41,993	36,619	155,944	153,737	197,937	190,356
Construction in progress	4,733	1,155	11,464	10,867	16,197	12,022
Total	<u>\$ 203,675</u>	<u>\$ 194,344</u>	<u>\$ 203,251</u>	<u>\$ 197,385</u>	<u>\$ 406,926</u>	<u>\$ 391,729</u>

Significant capital asset activity for fiscal year 2015 included:

- Design for Wastewater Pumping Stations projects, appropriated for \$8,009, started in the fall of 2007 and \$7,110 has been expended.
- At the 2008 Annual Town Meeting, the Town authorized over \$21,000 in water capital projects and \$9,000 in sewer capital projects. \$2,134 has been expended on Grove Street water pump station appropriated for \$2,932. In addition, \$2,210 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, \$7,439 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, \$40,355 has been expended on Phase I.
- At the 2010 Annual Town Meeting, \$17,967 was voted for additional water capital projects. Currently, \$4,728 has been expended from the \$9,619 appropriated for North Concord Street water mains project. Further, \$5,901 has been expended from the \$6,263 appropriation for Grant and Pond Streets project.

Design of the Goodnow Pump Station authorized for \$1,385 was started in May. 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, \$4,158 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, \$1,157 and \$943 was expended, respectively. In addition, \$5,587 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 \$1,229 of expenditures.
- At the 2012 Annual Town Meeting, Water and sewer improvements at the intersections of Irving, Loring, and Herbert Streets appropriated at \$1,795 and \$2,475 started and \$940 and \$1,760 have been expended, respectively. \$2,586 was expended from the \$3,214 appropriation for Beebe water storage tanks; and \$2,278 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 \$3,792 has been incurred on architectural and related expenses. The branch is expected to open in February 2016.
- 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 has been substantially completed. \$4,529 was appropriated for water capital and major equipment purchase of which \$2,990 was for the Warren Road and Prindiville water mains which has not started. \$25,630 was appropriated for sewer capital and major equipment purchases. Of the \$17,220 appropriated for the Worcester Road pump station elimination project, \$228 has been expended. Design costs of \$253 have been expended from the \$6,563 appropriation for the Baiting Road sewer improvements. \$557 has been expended on the \$1,240 appropriation for Bethany Road.
- 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 of which \$3,628 has been expended. Of the \$1,000 appropriated for refuse collection bins and \$1,337 appropriated for automatic refuse packers to modernize the refuse collection operations, \$899 and \$1,131 has been expended, respectively. \$18,016 was appropriated for water capital and major equipment purchases. \$242 and \$316 has been expended on the design and initial construction of the \$3,325 appropriation 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 for the Waverly and Winthrop intersection realignment design and construction for which \$469 has been expended, \$1,880 appropriated for the Union Avenue

sewer improvements for which \$88 was expended and \$1,585 appropriated for the Elmfield Road sewer improvements of which \$37 has been expended.

- At the 2015 Annual Town Meeting, \$19,523 was appropriated for a variety of Town capital and major equipment projects the largest being \$5,660 for renovations to the Loring Arena, \$4,500 for Roadway Improvements, \$1,155 for School Technology Upgrades, and \$1,207 for the Farley Building Repairs. \$10,291 was appropriated for Water capital and major equipment purchase of which \$3,160 for design and construction of the Evergreen Street area and \$3,980 for water main construction in the Speen Street and Cochituate Road area. \$16,596 was appropriated for Sewer capital and major equipment purchases including \$9,810 for design and construction of the Interchange 12 Railway Sewer alignment, \$1,100 for design of the Shawmut Terrace and John McQuinn Pump Stations and Woodland Force main improvements, \$1,245 for design of the Worcester Road area sewer improvements and \$1,410 for the design and construction of the Speen Street area force main abandonment.

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 \$219,785,353, all of which was backed by the full faith and credit of the government.

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

<u>OUTSTANDING DEBT</u>						
General Obligation Bonds and Bond Anticipation Notes						
June 30, 2015 and 2014						
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General obligation bonds	\$ 53,832	\$ 55,871	\$ 125,396	\$ 111,403	\$ 179,228	\$ 167,274
Bond anticipation notes	<u>12,744</u>	<u>7,817</u>	<u>27,813</u>	<u>41,009</u>	<u>40,557</u>	<u>48,826</u>
Total	<u>\$ 66,576</u>	<u>\$ 63,688</u>	<u>\$ 153,209</u>	<u>\$ 152,412</u>	<u>\$ 219,785</u>	<u>\$ 216,100</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 4.0% (June), which is down from the 4.5% rate from June 2014. This compares to the State's unemployment rate of 4.7% and the national rate of 5.3%
- 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 2016 fiscal year.
- During the current fiscal year, unassigned fund balance in the general fund decreased to \$20,971. In addition, the Town of Framingham has appropriated \$4,950 of "free cash" to finance the FY16 general fund operating budget of which \$200 for Stabilization and \$1,000 to a Capital Stabilization fund.
- In FY15, the Town transferred a net \$640 into the Stabilization fund, as well as, appropriated a transfer of \$200 for FY16. The Stabilization fund is currently maintained at 5% of the Town's operating budget. The Capital Stabilization fund established in FY15 had a balance of \$2,442.
- The \$11,465 of free cash certified by the Massachusetts Department of Revenue as of July 1, 2015 is available, subject to appropriation, to finance FY16 and FY17 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, 2015

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 50,708,298	\$ 18,913,379	\$ 69,621,677
Investments	21,669,425	-	21,669,425
Receivables, net of allowance for uncollectibles:			
Property taxes	2,838,123	-	2,838,123
Motor vehicle excise	982,124	-	982,124
User fees	427,242	14,771,347	15,198,589
Departmental and other	220,326	-	220,326
Intergovernmental	9,259,841	367,562	9,627,403
Assessments	-	4,461	4,461
Other assets	59,827	-	59,827
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax title	1,350,334	-	1,350,334
Departmental and other	1,057,063	-	1,057,063
Intergovernmental	7,695,985	1,054,509	8,750,494
Assessments	-	774,435	774,435
Other assets	-	-	-
Land and construction in progress	24,765,565	12,571,758	37,337,323
Other capital assets, net of accumulated depreciation	178,909,678	190,679,208	369,588,886
DEFERRED OUTFLOWS OF RESOURCES	<u>790,596</u>	<u>9,205</u>	<u>799,801</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>300,734,427</u>	<u>239,145,864</u>	<u>539,880,291</u>
LIABILITIES			
Current:			
Warrants payable	8,525,603	2,701,183	11,226,786
Accounts payable	66,286	21,962	88,248
Retainage payable	214,723	-	214,723
Accrued liabilities	14,668,351	783,164	15,451,515
Tax refunds payable	4,994,889	-	4,994,889
Notes payable	12,743,692	27,813,190	40,556,882
Other liabilities	291,421	-	291,421
Current portion of long-term liabilities:			
Bonds payable	8,178,331	8,095,580	16,273,911
Compensated absences	2,487,395	144,226	2,631,621
Other liabilities	103,260	249,015	352,275
Noncurrent:			
Bonds payable	45,654,132	117,300,428	162,954,560
Net OPEB obligation	99,908,573	3,576,524	103,485,097
Net pension liability	86,792,515	1,816,485	88,609,000
Compensated absences	1,228,550	13,412	1,241,962
Other liabilities	2,002,944	4,305,957	6,308,901
DEFERRED INFLOWS OF RESOURCES	<u>278,834</u>	<u>251,999</u>	<u>530,833</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>288,139,499</u>	<u>167,073,125</u>	<u>455,212,624</u>
NET POSITION			
Net investment in capital assets	137,099,088	56,996,579	194,095,667
Restricted for:			
Grants and other statutory restrictions	10,234,214	-	10,234,214
Permanent funds:			
Nonexpendable	585,195	-	585,195
Expendable	2,146,728	-	2,146,728
Unrestricted	<u>(137,470,297)</u>	<u>15,076,160</u>	<u>(122,394,137)</u>
TOTAL NET POSITION	<u>\$ 12,594,928</u>	<u>\$ 72,072,739</u>	<u>\$ 84,667,667</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, 2015

	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
Governmental Activities:							
General government	\$ 11,767,461	\$ 2,307,665	\$ 63,870	\$ 698,565	\$ (8,697,361)	\$ -	\$ (8,697,361)
Public safety	33,796,436	6,285,704	843,936	-	(26,666,796)	-	(26,666,796)
Education	157,197,887	4,759,432	61,143,207	-	(91,295,248)	-	(91,295,248)
Public works	21,164,699	535,225	1,600,120	3,127,216	(15,902,138)	-	(15,902,138)
Health and human services	2,122,028	134,002	614,501	-	(1,373,525)	-	(1,373,525)
Culture and recreation	7,762,046	945,144	323,016	1,404,856	(5,089,030)	-	(5,089,030)
Employee benefits	43,527,541	3,278,960	-	-	(40,248,581)	-	(40,248,581)
Interest	2,339,716	-	-	-	(2,339,716)	-	(2,339,716)
Intergovernmental	6,269,455	-	-	-	(6,269,455)	-	(6,269,455)
Total Governmental Activities	285,947,269	18,246,132	64,588,650	5,230,637	(197,881,850)	-	(197,881,850)
Business-Type Activities:							
Water services	16,606,553	19,153,828	-	-	-	2,547,275	2,547,275
Sewer services	24,731,006	23,500,590	-	891,841	-	(338,575)	(338,575)
Total Business-type Activities	41,337,559	42,654,418	-	891,841	-	2,208,700	2,208,700
Total Primary Government	\$ 327,284,828	\$ 60,900,550	\$ 64,588,650	\$ 6,122,478	(197,881,850)	2,208,700	(195,673,150)
			General Revenues and transfers:				
			Property taxes		171,624,616	-	171,624,616
			Excises		7,508,771	-	7,508,771
			Penalties, interest and other taxes		4,579,228	-	4,579,228
			Grants and contributions not restricted to specific programs		9,205,955	-	9,205,955
			Investment income		589,626	7,834	597,460
			Miscellaneous		2,314,566	457,073	2,771,639
			Transfers, net		2,888,490	(2,888,490)	-
			Total general revenues and transfers		198,711,252	(2,423,583)	196,287,669
			Change in Net Position		829,402	(214,883)	614,519
			Net Position:				
			Beginning of Year, as restated		11,765,526	72,287,622	84,053,148
			End of Year		\$ 12,594,928	\$ 72,072,739	\$ 84,667,667

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 36,039,007	\$ 9,882,962	\$ 45,921,969
Investments	18,097,719	3,571,706	21,669,425
Receivables:			
Property taxes	5,816,703	-	5,816,703
Motor vehicle excise	2,753,222	-	2,753,222
User fees	-	427,242	427,242
Departmental and other	131,842	1,057,063	1,188,905
Intergovernmental	-	7,130,170	7,130,170
Due to/from other funds	73,345	(73,345)	-
Other assets	<u>59,827</u>	<u>-</u>	<u>59,827</u>
TOTAL ASSETS	<u>\$ 62,971,665</u>	<u>\$ 21,995,798</u>	<u>\$ 84,967,463</u>
LIABILITIES			
Warrants payable	\$ 3,263,098	\$ 5,195,995	\$ 8,459,093
Accounts payable	-	66,286	66,286
Retainage payable	-	214,723	214,723
Accrued liabilities	10,002,582	702,494	10,705,076
Tax refunds payable	4,994,889	-	4,994,889
Notes payable	-	12,743,692	12,743,692
Other liabilities	<u>262,169</u>	<u>29,252</u>	<u>291,421</u>
TOTAL LIABILITIES	18,522,738	18,952,442	37,475,180
DEFERRED INFLOWS OF RESOURCES	7,992,107	3,714,385	11,706,492
FUND BALANCES			
Nonspendable	73,530	585,195	658,725
Restricted	53,551	13,720,897	13,774,448
Committed	8,645,420	44,546	8,689,966
Assigned	6,713,091	-	6,713,091
Unassigned	<u>20,971,228</u>	<u>(15,021,667)</u>	<u>5,949,561</u>
TOTAL FUND BALANCES	<u>36,456,820</u>	<u>(671,029)</u>	<u>35,785,791</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 62,971,665</u>	<u>\$ 21,995,798</u>	<u>\$ 84,967,463</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, 2015

Total governmental fund balances	\$ 35,785,791
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	203,675,243
• Noncurrent assets, including MSBA reimbursements for contracted assistance, are not receivable in the current period and, therefore, are not reported in the governmental funds.	9,825,656
• 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.	71,966
• Deferred outflow of resources related to pensions resulting from projected vs. actual earnings will be recognized as a reduction in the net pension liability in future years.	439,796
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	8,307,148
• 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.	1,141,060
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(296,032)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(53,832,463)
Net OPEB obligation	(99,908,573)
Net pension liability	(86,792,515)
Compensated absences liability	(3,715,945)
Premiums on bonds	<u>(2,106,204)</u>
Net position of governmental activities	\$ <u>12,594,928</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, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 170,799,150	\$ -	\$ 170,799,150
Excises	7,539,841	-	7,539,841
Penalties, interest and other taxes	4,579,228	-	4,579,228
Charges for services	2,320,033	8,637,866	10,957,899
Intergovernmental	48,715,313	20,135,345	68,850,658
Licenses and permits	3,369,914	73,630	3,443,544
Fines and forfeitures	488,443	14,652	503,095
Investment income (loss)	547,933	(24,044)	523,889
Contributions	-	897,075	897,075
Miscellaneous	<u>2,522,114</u>	<u>369,822</u>	<u>2,891,936</u>
Total Revenues	240,881,969	30,104,346	270,986,315
Expenditures:			
Current:			
General government	9,086,631	1,514,649	10,601,280
Public safety	27,208,888	3,763,214	30,972,102
Education	118,915,246	15,778,061	134,693,307
Public works	15,075,222	4,412,352	19,487,574
Human services	1,769,206	196,850	1,966,056
Culture and recreation	5,903,600	620,386	6,523,986
Employee benefits	42,980,586	-	42,980,586
Debt service	11,909,137	-	11,909,137
Intergovernmental	6,269,455	-	6,269,455
Capital outlay	<u>-</u>	<u>18,137,402</u>	<u>18,137,402</u>
Total Expenditures	<u>239,117,971</u>	<u>44,422,914</u>	<u>283,540,885</u>
Excess (Deficiency) of revenues over expenditures	1,763,998	(14,318,568)	(12,554,570)
Other Financing Sources (Uses):			
Proceeds from bond issuances	-	7,270,120	7,270,120
Transfers in	2,994,760	395,384	3,390,144
Transfers out	<u>(395,384)</u>	<u>(106,270)</u>	<u>(501,654)</u>
Total Other Financing Sources (Uses)	<u>2,599,376</u>	<u>7,559,234</u>	<u>10,158,610</u>
Change in fund balance	4,363,374	(6,759,334)	(2,395,960)
Fund Balance, at Beginning of Year	<u>32,093,446</u>	<u>6,088,305</u>	<u>38,181,751</u>
Fund Balance, at End of Year	<u>\$ 36,456,820</u>	<u>\$ (671,029)</u>	<u>\$ 35,785,791</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, 2015

Net changes in fund balances - Total governmental funds	\$ (2,395,960)																		
<ul style="list-style-type: none"> • 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="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Capital outlay purchases, net of disposals</td> <td style="width: 20%; text-align: right;">22,570,004</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(13,239,154)</td> </tr> </table> • 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. 1,224,788 • 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. (2,510,995) • 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="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Proceeds from debt</td> <td style="width: 20%; text-align: right;">(7,270,120)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">9,308,618</td> </tr> <tr> <td>Change in deferred debt amortization</td> <td style="text-align: right;">(59,817)</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 244,980 • 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="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Increase in liability for compensated absences</td> <td style="width: 20%; text-align: right;">(108,231)</td> </tr> <tr> <td>Increase in net OPEB obligation</td> <td style="text-align: right;">(9,255,724)</td> </tr> <tr> <td>Decrease in net pension liability, net of deferred outflows</td> <td style="text-align: right;">2,510,459</td> </tr> <tr> <td>Increase in bond premium amortization</td> <td style="text-align: right;">(476,729)</td> </tr> </table> • 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. 287,283 		Capital outlay purchases, net of disposals	22,570,004	Depreciation	(13,239,154)	Proceeds from debt	(7,270,120)	Repayments of debt	9,308,618	Change in deferred debt amortization	(59,817)	Increase in liability for compensated absences	(108,231)	Increase in net OPEB obligation	(9,255,724)	Decrease in net pension liability, net of deferred outflows	2,510,459	Increase in bond premium amortization	(476,729)
Capital outlay purchases, net of disposals	22,570,004																		
Depreciation	(13,239,154)																		
Proceeds from debt	(7,270,120)																		
Repayments of debt	9,308,618																		
Change in deferred debt amortization	(59,817)																		
Increase in liability for compensated absences	(108,231)																		
Increase in net OPEB obligation	(9,255,724)																		
Decrease in net pension liability, net of deferred outflows	2,510,459																		
Increase in bond premium amortization	(476,729)																		
Change in net position of governmental activities	\$ <u>829,402</u>																		

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original Budget</u>	<u>Final Budget</u>		Positive (Negative)
Revenues and Other Sources:				
Property taxes	\$ 171,357,432	\$ 171,357,432	\$ 171,357,432	\$ -
Excise	7,285,000	7,285,000	7,539,841	254,841
Penalties, interest and other taxes	4,430,000	4,430,000	4,579,228	149,228
Charges for services	2,494,000	2,494,000	2,433,305	(60,695)
Intergovernmental	46,715,466	46,715,466	46,703,480	(11,986)
Licenses and permits	2,250,000	2,250,000	3,256,641	1,006,641
Fines and forfeitures	450,000	450,000	488,443	38,443
Investment income	200,000	200,000	144,771	(55,229)
Miscellaneous	2,618,472	2,618,472	4,533,947	1,915,475
Transfers in	2,953,490	2,959,254	2,994,760	35,506
Other sources	<u>3,837,446</u>	<u>4,546,691</u>	<u>4,546,691</u>	<u>-</u>
Total Revenues and Other Sources	244,591,306	245,306,315	248,578,539	3,272,224
Expenditures and Other Uses:				
General government	9,649,995	9,641,890	8,810,045	831,845
Public safety	27,730,449	28,303,608	27,253,943	1,049,665
Education	118,072,651	119,100,437	118,917,272	183,165
Public works	11,728,025	14,205,855	13,860,858	344,997
Human services	1,917,762	1,875,616	1,784,653	90,963
Culture and recreation	6,165,280	6,208,627	5,961,864	246,763
Employee benefits	46,549,436	43,192,575	42,173,453	1,019,122
Debt service	12,457,786	12,457,785	12,036,457	421,328
Intergovernmental	6,262,422	6,262,422	6,269,455	(7,033)
Transfers out	3,837,446	3,837,446	3,837,446	-
Other uses	<u>220,054</u>	<u>220,054</u>	<u>220,054</u>	<u>-</u>
Total Expenditures and Other Uses	<u>244,591,306</u>	<u>245,306,315</u>	<u>241,125,500</u>	<u>4,180,815</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>7,453,039</u>	\$ <u>7,453,039</u>

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
ASSETS				
Current:				
Cash and short-term investments	\$ 8,751,253	\$ 10,162,126	\$ 18,913,379	\$ 4,786,329
User fees, net of allowance for uncollectibles	6,646,734	8,124,613	14,771,347	-
Intergovernmental	-	367,562	367,562	-
Assessments	4,461	-	4,461	-
Other assets	-	-	-	88,484
Total current assets	15,402,448	18,654,301	34,056,749	4,874,813
Noncurrent:				
Intergovernmental	-	1,054,509	1,054,509	-
Assessments	774,435	-	774,435	-
Land and construction in progress	10,578,430	1,993,328	12,571,758	-
Other capital assets, net of accumulated depreciation	67,320,648	123,358,560	190,679,208	-
Total noncurrent assets	78,673,513	126,406,397	205,079,910	-
DEFERRED OUTFLOWS OF RESOURCES	5,388	3,817	9,205	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	94,081,349	145,064,515	239,145,864	4,874,813
LIABILITIES				
Current:				
Warrants payable	1,416,203	1,284,980	2,701,183	66,510
Accounts payable	20,265	1,697	21,962	-
Accrued liabilities	204,120	579,044	783,164	3,667,243
Notes payable	8,575,387	19,237,803	27,813,190	-
Current portion of long-term liabilities:				
Bonds payable	3,536,748	4,558,832	8,095,580	-
Compensated absences	89,935	54,291	144,226	-
Other liabilities	142,590	106,425	249,015	-
Total current liabilities	13,985,248	25,823,072	39,808,320	3,733,753
Noncurrent:				
Bonds payable	39,181,063	78,119,365	117,300,428	-
Net OPEB obligation	1,880,421	1,696,103	3,576,524	-
Net pension liability	1,063,308	753,177	1,816,485	-
Compensated absences	9,259	4,153	13,412	-
Other liabilities	2,383,820	1,922,137	4,305,957	-
Total noncurrent liabilities	44,517,871	82,494,935	127,012,806	-
DEFERRED INFLOWS OF RESOURCES	232,666	19,333	251,999	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	58,735,785	108,337,340	167,073,125	3,733,753
NET POSITION				
Net investment in capital assets	29,515,491	27,481,088	56,996,579	-
Unrestricted	5,830,073	9,246,087	15,076,160	1,141,060
TOTAL NET POSITION	<u>\$ 35,345,564</u>	<u>\$ 36,727,175</u>	<u>\$ 72,072,739</u>	<u>\$ 1,141,060</u>

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, 2015

	Business-Type Activities Enterprise Funds			Governmental
	Water Fund	Sewer Fund	Total	Activities Internal Service Fund
Operating Revenues:				
Charges for services	\$ 19,055,418	\$ 23,383,980	\$ 42,439,398	\$ 3,278,960
Other	98,410	116,610	215,020	-
Total Operating Revenues	19,153,828	23,500,590	42,654,418	3,278,960
Operating Expenses:				
Salaries and wages	3,205,449	2,785,746	5,991,195	-
Operating expenses	1,739,366	1,392,806	3,132,172	3,057,414
Depreciation	2,621,069	7,079,299	9,700,368	-
Intergovernmental	7,604,488	11,278,349	18,882,837	-
Total Operating Expenses	15,170,372	22,536,200	37,706,572	3,057,414
Operating Income	3,983,456	964,390	4,947,846	221,546
Nonoperating Revenues (Expenses):				
Investment income	4,222	3,612	7,834	65,737
Interest expense	(1,436,181)	(2,194,806)	(3,630,987)	-
Other nonoperating income	174,327	282,746	457,073	-
Total Nonoperating Revenues (Expenses), Net	(1,257,632)	(1,908,448)	(3,166,080)	65,737
Income (Loss) Before Capital Contributions and Transfers	2,725,824	(944,058)	1,781,766	287,283
Capital contributions	-	891,841	891,841	-
Transfers out	(1,499,362)	(1,389,128)	(2,888,490)	-
Change in Net Position	1,226,462	(1,441,345)	(214,883)	287,283
Net Position at Beginning of Year, as restated	34,119,102	38,168,520	72,287,622	853,777
Net Position at End of Year	\$ 35,345,564	\$ 36,727,175	\$ 72,072,739	\$ 1,141,060

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, 2015

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 18,637,674	\$ 22,539,176	\$ 41,176,850	\$ 3,276,447
Payments to vendors	(8,509,352)	(11,371,516)	(19,880,868)	-
Payments to employees	<u>(3,105,004)</u>	<u>(2,690,987)</u>	<u>(5,795,991)</u>	<u>(7,172,460)</u>
Net Cash Provided By Operating Activities	7,023,318	8,476,673	15,499,991	(3,896,013)
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers out	(1,499,362)	(1,389,128)	(2,888,490)	-
Other nonoperating income	<u>137,244</u>	<u>282,745</u>	<u>419,989</u>	<u>-</u>
Net Cash (Used For) Noncapital Financing Activities	(1,362,118)	(1,106,383)	(2,468,501)	-
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Proceeds from issuance of bonds	2,936,499	18,903,079	21,839,578	-
Proceeds from issuance of short-term notes	8,575,387	21,352,390	29,927,777	-
Acquisition and construction of capital assets, net of disposals	(6,947,705)	(8,618,189)	(15,565,894)	-
Principal payments on bonds	(3,812,477)	(4,034,679)	(7,847,156)	-
Principal payments on short-term notes	(6,267,085)	(34,742,152)	(41,009,237)	-
Interest expense	(1,482,907)	(2,174,401)	(3,657,308)	-
Capital contributions	-	960,770	960,770	-
Net (Used For) Capital and Related Financing Activities	(6,998,288)	(8,353,182)	(15,351,470)	-
<u>Cash Flows From Investing Activities:</u>				
Investment income	<u>4,222</u>	<u>3,612</u>	<u>7,834</u>	<u>65,737</u>
Net Cash Provided By Investing Activities	<u>4,222</u>	<u>3,612</u>	<u>7,834</u>	<u>65,737</u>
Net Change in Cash and Short-Term Investments	(1,332,866)	(979,280)	(2,312,146)	(3,830,276)
Cash and Short-Term Investments, Beginning of Year	<u>10,084,119</u>	<u>11,141,406</u>	<u>21,225,525</u>	<u>8,616,605</u>
Cash and Short-Term Investments, End of Year	<u>\$ 8,751,253</u>	<u>\$ 10,162,126</u>	<u>\$ 18,913,379</u>	<u>\$ 4,786,329</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>				
Operating income	\$ 3,983,456	\$ 964,390	\$ 4,947,846	\$ 221,546
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	2,621,069	7,079,299	9,700,368	-
Changes in assets and liabilities:				
User fees	(640,589)	(961,413)	(1,602,002)	(2,513)
Assessments	124,435	-	124,435	-
Other assets	(5,388)	(3,817)	(9,205)	-
Warrants payable	833,512	446,340	1,279,852	(3,560,241)
Accounts payable	6,378	992	7,370	-
Accrued liabilities	10,158	30,489	40,647	(554,805)
Other liabilities	-	856,123	856,123	-
Compensated absences	2,889	1,702	4,591	-
Net OPEB obligation	112,766	80,537	193,303	-
Net pension liability	<u>(25,368)</u>	<u>(17,969)</u>	<u>(43,337)</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ 7,023,318</u>	<u>\$ 8,476,673</u>	<u>\$ 15,499,991</u>	<u>\$ (3,896,013)</u>

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2015

	Pension Trust Fund (as of <u>December 31, 2014</u>)	Other Post Employment <u>Trust Fund</u>	Agency <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 11,580,685	\$ 17,577	\$ 6,091,341
Investments	247,837,495	3,441,441	189,624
Accounts receivable	<u>669,534</u>	<u>-</u>	<u>-</u>
Total Assets	260,087,714	3,459,018	6,280,965
LIABILITIES AND NET ASSETS			
Warrants payable	-	-	39,159
Other liabilities	<u>960,390</u>	<u>-</u>	<u>6,241,806</u>
Total Liabilities	<u>960,390</u>	<u>-</u>	<u>6,280,965</u>
Total Net Position Held in Trust For Pension and other Benefits	<u>\$ 259,127,324</u>	<u>\$ 3,459,018</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, 2015

	Pension Trust Fund (for the year ended December 31, 2014)	Other Post Employment Trust Fund
Additions:		
Contributions:		
Employers	\$ 12,411,517	\$ 913,678
Plan members	6,573,533	-
Reimbursements from federal grants	58,142	-
Reimbursements from Commonwealth of Massachusetts	151,028	-
Reimbursements from other systems	854,462	-
Other	<u>14,928</u>	<u>-</u>
Total contributions	20,063,610	913,678
Investment Income:		
Increase in fair value of investments	19,509,457	28,705
Less: management fees	<u>(1,308,268)</u>	<u>-</u>
Net investment income	<u>18,201,189</u>	<u>28,705</u>
Total additions	38,264,799	942,383
Deductions:		
Benefit payments to plan members and beneficiaries	20,256,348	-
Reimbursements to other systems	1,116,322	-
Refunds and transfers of plan member accounts to other systems	1,230,103	-
Administrative expenses	<u>350,699</u>	<u>-</u>
Total deductions	<u>22,953,472</u>	<u>-</u>
Net increase	15,311,327	942,383
Net position held in trust for pension benefits:		
Beginning of Year, as restated	<u>243,815,997</u>	<u>2,516,635</u>
End of Year	<u>\$ 259,127,324</u>	<u>\$ 3,459,018</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 2015 tax levy reflected an excess capacity of \$5,501.554.

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)	\$ 240,881,969	\$ 239,117,971
Other financing sources/uses (GAAP Basis)	<u>2,994,760</u>	<u>395,384</u>
Subtotal (GAAP Basis)	243,876,729	239,513,355
Adjust tax revenue to accrual basis	(20,893)	-
Reverse expenditures of prior year carryforwards	-	(1,860,272)
Add end-of-year appropriation carryforwards from expenditures	-	614,252
To reverse non-budgeted activity	176,012	2,638,111
Recognize other sources and uses	<u>4,546,691</u>	<u>220,054</u>
Budgetary Basis	<u>\$ 248,578,539</u>	<u>\$ 241,125,500</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2015:

Capital Project Funds:	
Technology Upgrades	\$ (479,781)
Rack Truck/Lift Gate	(37,378)
Utility Body Truck	(43,000)
Utility Body Truck	(44,963)
ADA Upgrades	(74,634)
Paving Stormwater Study	(25,508)
Mechanical, Electrical, Plumbing	(39,670)
King School Elevator	(232,491)
Energy Conservation	(123,615)
Furniture Replacement	(110,564)
Asbestos Floor Tiles	(173,840)
Food Services Equipment	(58,638)
Paving Stormwater Water	(241,280)
ADA Upgrades FY15	(83,464)
HVAC Replacement FY15	(23,030)
Mechanical, Electrical, Plumbing FY15	(27,354)
Maynard/Memorial Bldg	(52,000)
Memorial/Maynard Bldg Improv	(865,772)
Inground Fuel Tank	(6)
Town Buildings	(4,750)
Playground Safety Mulch	(3,210)
McAuliffe Branch Library	(2,144,579)

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Pearl Street Garage Repairs	(8,000)
Arena Renovation Designs	(35,117)
Cushing Park Phase 5	(354,339)
Water Street Retaining Wall	(322,991)
Saxonville Levee Pump	(22,062)
Campello Road Drain	(38,026)
Transfer Station Demo and Design	(32,614)
FY14 Roadway Improvements	(188,328)
Beaver Dam Brook	(282,311)
FY14 Traffic Calming	(155,631)
Memorial Building Study	(40,121)
Athenaeum Hall Study	(130,800)
Village Hall Study	(36,650)
RFID Coll Security	(19,476)
Callahan Senior Center Ent	(105,262)
Mary Denson/Skate Design	(60,000)
Drain System Water	(17,206)
Fuel Island Western Ave	(15,928)
Roadway Improvements FY15	(3,128,487)
Traffic Calming FY15	(79,175)
Danforth Space Study	(17,100)
Mary Denison Park T&R	(80,580)
Roadway Improvements	(297,893)
Network Infrastructure Improvements	(44,375)
Mobile Field Inspection	(15,381)
Asset Management	(23,853)
Refuse Packer	(274,000)
Protective Cloth Replacement	(540)
Sander Copsprd	(5)
Packer/Plow	(300,445)
Public Safety Server	(3,216)
Archived Doc Scan	(41,138)
Protective Cloth Replacement	(1,700)
Pick-up Signal Div	(57,137)
Ford F650 J-Hook	(67,245)
F350 4x4 Crew Cab	(41,710)
F350 4x4 Regular Cab	(37,395)
Emergency Generator	(126,966)
4wd Pickup	(42,067)
Rack Truck	(44,092)
4wd Dump	(67,350)
Mntd Snow Blower	(105,980)
CY Spreader	(37,085)
Sidewalk Tractor	(136,021)
Dump	(196,427)
CY Spreader	(35,965)
Refuse Clctn Carts	(899,822)
4 Packers	(1,131,451)
Fire Mobile Data	(66,398)
Achived Doc Scan	(78,344)
Computer Server Room Upgrades	(293,000)
Arena Repairs	(27,193)

Special Revenue Funds:	
Bulletproof Vest Prnship Program	(32,054)
US Dept of Justice Grants	(4,491)
Community Development Block Grant	(28,261)
West Metro HOME Consortium	(82,473)
Department of Housing Community Service	(28,470)
EPA Brownsfield Grant	(49,793)
Mass DOT Grants	(13)
US Title I Extra Chance	(1,306)
Governors Highway Safety Bureau	(53,381)
Chapter 90 Highway	(182,824)
Partnership for Skilled Workforce	<u>(4,676)</u>
Total	<u>\$ (15,021,667)</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, 2015 and December 31, 2014, \$22,067,235 and \$7,928,955 of the Town's and System's bank balances of \$79,085,810 and \$12,274,937 respectively, was exposed to custodial credit risk as uninsured or uncollateralized.

Of the Town's balance exposed to custodial credit risk, \$17,393,114 is on deposit with Massachusetts Municipal Depository Trust.

Of the System's balance exposed to custodial credit risk, \$2,100,000 is on deposit with the Pension Reserve Investment Trust and \$5,828,955 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>Not Rated</u>
Corporate stocks	\$ 8,705	\$ -	\$ -	\$ 8,705
Corporate bonds	1,317	-	1,317	-
Certificate of deposit	9,012	-	-	9,012
Mutual funds	2,727	-	-	2,727
US Treasury notes	438	438	-	-
Federal agency securities	3,101	3,101	-	-
Total investments	\$ <u>25,300</u>	\$ <u>3,539</u>	\$ <u>1,317</u>	\$ <u>20,444</u>

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

At December 31, 2014, the Contributory Retirement System maintained its investments in the State Investment Pool* with a fair value of \$247,837,495. 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 \$1,702,209 held in Federal Home Loan Mortgage notes and \$1,399,449 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>
Debt-related Securities:			
Corporate bonds	\$ 1,317	\$ 506	\$ 811
Certificate of deposit	9,012	3,623	5,389
US Treasury notes	438	-	438
Federal agency securities	<u>3,101</u>	<u>-</u>	<u>3,101</u>
Total	<u>\$ 13,868</u>	<u>\$ 4,129</u>	<u>\$ 9,739</u>

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

E. Foreign Currency Risk

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

5. Taxes Receivable

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

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

Taxes receivable at June 30, 2015 consist of the following (in thousands):

Real Estate		
2015	\$ 2,508	
2014	36	
2013	21	
2012	25	
Prior	<u>35</u>	2,625
Personal Property		
2015	102	
2014	20	
2013	18	
2012	20	
Prior	<u>338</u>	498
Tax Liens		2,110
Deferred Taxes		<u>584</u>
Total		<u>\$ 5,817</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	\$ 1,628	\$ -
Excises	\$ 1,771	\$ -
Utilities	\$ -	\$ 121

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015, 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 2015:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
<u>Governmental Funds:</u>			
General Fund	\$ 2,994,760	\$ 395,384	\$ 2,599,376
Nonmajor Governmental Funds	<u>395,384</u>	<u>106,270</u>	<u>289,114</u>
Subtotal - Governmental	3,390,144	501,654	2,888,490
<u>Proprietary Funds:</u>			
Water Enterprise Fund	-	1,499,362	(1,499,362)
Sewer Enterprise Fund	<u>-</u>	<u>1,389,128</u>	<u>(1,389,128)</u>
Subtotal - Proprietary	<u>-</u>	<u>2,888,490</u>	<u>(2,888,490)</u>
Total	<u>\$ 3,390,144</u>	<u>\$ 3,390,144</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, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 200,564	\$ 2,232	\$ -	\$ 202,796
Vehicles, machinery, equipment and furnishings	50,335	7,648	-	57,983
Infrastructure	<u>60,143</u>	<u>8,409</u>	<u>-</u>	<u>68,552</u>
Total capital assets, being depreciated	311,042	18,289	-	329,331
Less accumulated depreciation for:				
Buildings and improvements	(78,729)	(6,248)	-	(84,977)
Vehicles, machinery, equipment and furnishings	(34,929)	(3,956)	-	(38,885)
Infrastructure	<u>(23,524)</u>	<u>(3,035)</u>	<u>-</u>	<u>(26,559)</u>
Total accumulated depreciation	<u>(137,182)</u>	<u>(13,239)</u>	<u>-</u>	<u>(150,421)</u>
Total capital assets, being depreciated, net	173,860	5,050	-	178,910
Capital assets, not being depreciated:				
Land	19,329	703	-	20,032
Construction in progress	<u>1,155</u>	<u>3,578</u>	<u>-</u>	<u>4,733</u>
Total capital assets, not being depreciated	<u>20,484</u>	<u>4,281</u>	<u>-</u>	<u>24,765</u>
Governmental activities capital assets, net	<u>\$ 194,344</u>	<u>\$ 9,331</u>	<u>\$ -</u>	<u>\$ 203,675</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 34,788	\$ 3,920	\$ -	\$ 38,708
Vehicles, machinery, equipment and furnishings	11,050	961	-	12,011
Infrastructure	<u>208,310</u>	<u>10,088</u>	<u>-</u>	<u>218,398</u>
Total capital assets, being depreciated	254,148	14,969	-	269,117
Less accumulated depreciation for:				
Capital assets, being depreciated:				
Buildings and improvements	(6,730)	(1,170)	-	(7,900)
Vehicles, machinery, equipment and furnishings	(7,435)	(649)	-	(8,084)
Infrastructure	<u>(54,573)</u>	<u>(7,881)</u>	<u>-</u>	<u>(62,454)</u>
Total accumulated depreciation	<u>(68,738)</u>	<u>(9,700)</u>	<u>-</u>	<u>(78,438)</u>
Total capital assets, being depreciated, net	185,410	5,269	-	190,679
Capital assets, not being depreciated:				
Land	1,108	-	-	1,108
Construction in progress	<u>10,867</u>	<u>597</u>	<u>-</u>	<u>11,464</u>
Total capital assets, not being depreciated	<u>11,975</u>	<u>597</u>	<u>-</u>	<u>12,572</u>
Business-type activities capital assets, net	<u>\$ 197,385</u>	<u>\$ 5,866</u>	<u>\$ -</u>	<u>\$ 203,251</u>

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

Governmental Activities:	
General government	\$ 1,193
Public safety	1,440
Education	5,182
Public works	4,288
Health and human services	124
Culture and recreation	<u>1,012</u>
Total depreciation expense - governmental activities	<u>\$ 13,239</u>
Business-Type Activities:	
Water	\$ 2,621
Sewer	<u>7,079</u>
Total depreciation expense - business-type activities	<u>\$ 9,700</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, 2015 (in thousands):

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Proprietary Funds Water</u>	<u>Sewer</u>
Loss on refunding	\$ 351	\$ -	\$ -	\$ -
Net difference between projected and actual pension investment earnings	440	9	5	4
Total	<u>\$ 791</u>	<u>\$ 9</u>	<u>\$ 5</u>	<u>\$ 4</u>

11. Warrants and Accounts Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015. Accounts payable represent additional 2015 expenditures paid after July 15, 2015.

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, 2015:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/15</u>
Bond anticipation	1.00%	12/12/14	12/11/15	\$ 20,967,117
Bond anticipation	0.50%	06/26/15	12/11/15	17,281,057
State revolving loan	0.00%	11/08/12	project completion	133,266
State revolving loan	0.11%	03/31/14	project completion	<u>2,175,442</u>
Total				<u>\$ 40,556,882</u>

The following summarizes activity in notes payable during fiscal year 2015:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 27,478,989	\$ -	\$ (27,478,989)	\$ -
Bond anticipation	12,379,410	-	(12,379,410)	-
Bond anticipation	-	20,967,117	-	20,967,117
Bond anticipation	-	17,281,057	-	17,281,057
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	\$ 48,826,001	\$ 38,248,174	\$ (46,517,293)	\$ 40,556,882

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 6/30/15</u>
General obligation	03/25	3.79%	\$ 1,368,400
General obligation	03/24	3.79%	645,500
General obligation	03/24	3.79%	564,600
General obligation	02/19	4.34%	3,903,500
General obligation	03/23	3.00%	70,200
General obligation	11/23	0.00%	225,000
General obligation	03/20	5.51%	4,300,500
General obligation	03/24	3.00%	474,550
General obligation	06/26	4.08%	559,000
General obligation	11/27	3.84%	1,820,000
General obligation	07/27	2.00%	207,085
General obligation	06/24	3.00%	3,125,000
General obligation	06/30	3.00%	2,883,000
General obligation	07/30	2.00%	256,008
General obligation	06/31	3.63%	9,780,000
General obligation	12/32	3.45%	5,875,000
General obligation	12/38	3.24%	10,505,000
General obligation	12/35	3.84%	7,270,120
Total Governmental Activities			\$ 53,832,463

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/15</u>
Water (MWRA)	03/23	3.00%	\$ 136,600
Sewer	03/25	3.79%	274,900
Water	03/24	3.00%	1,443,400
Sewer (MWPAT)	03/24	0.00%	166,683
Water	03/25	3.79%	641,850
Water (MWRA)	02/16	0.00%	199,910
Water	06/26	4.08%	1,226,000
Sewer	06/26	4.08%	590,000
Sewer	11/27	3.84%	1,975,000
Water	11/27	3.84%	255,000
Sewer	07/27	2.00%	6,376,493
Sewer (MWPAT)	07/28	2.00%	325,226
Sewer (MWPAT)	07/28	2.00%	1,584,914
Water	06/24	3.00%	70,000
Water	06/30	3.53%	4,895,000
Sewer	06/30	3.53%	162,000
Sewer (MWPAT)	07/30	2.00%	1,256,427
Sewer (MWPAT)	07/27	2.00%	99,143
Sewer (MWPAT)	07/30	2.00%	155,885
Sewer (MWPAT)	07/30	2.00%	2,719,754
Sewer (MWPAT)	07/30	2.00%	3,117,707
Sewer (MWPAT)	07/30	2.00%	7,020,569
Sewer (MWPAT)	07/30	2.00%	258,128
Water	06/31	3.63%	5,570,000
Sewer	06/31	3.63%	5,255,000
Sewer (MWRA)	11/16	0.00%	169,973
Sewer (MWPAT)	07/28	2.00%	5,773
Sewer (MWPAT)	07/32	2.00%	21,835,716
Water (MWRA)	11/22	0.00%	4,563,552
Water	12/32	3.45%	16,835,000
Sewer	12/32	3.45%	2,305,000
Sewer (MWPAT)	07/30	2.00%	1,405,233
Water	12/38	3.24%	3,945,000
Sewer	12/38	3.24%	6,415,000
Sewer (MWPAT)	12/38	0.00%	300,595
Water	12/40	3.84%	1,465,099
Water	01/25	0.00%	1,471,400
Sewer	12/40	3.84%	12,238,780
Sewer (MWPAT)	01/35	2.00%	6,184,890
Sewer	5/20	0.00%	479,408
Total Business-Type Activities			\$ <u>125,396,008</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 8,178,331	\$ 2,059,723	\$ 10,238,054
2017	7,527,622	1,740,132	9,267,754
2018	6,683,094	1,462,505	8,145,599
2019	5,579,377	1,204,514	6,783,891
2020	4,250,972	983,490	5,234,462
2021 - 2025	14,441,720	2,746,832	17,188,552
2026 - 2030	6,212,847	621,227	6,834,074
2031 - 2035	958,500	57,905	1,016,405
Total	<u>\$ 53,832,463</u>	<u>\$ 10,876,328</u>	<u>\$ 64,708,791</u>

The general fund has been designated as the source to repay the governmental-type general obligation debt outstanding as of June 30, 2015.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 8,095,580	\$ 3,610,765	\$ 11,706,345
2017	7,777,784	3,378,891	11,156,675
2018	7,676,157	3,150,624	10,826,781
2019	7,695,912	2,905,028	10,600,940
2020	7,610,592	2,643,913	10,254,505
2021 - 2025	36,260,995	9,888,510	46,149,505
2026 - 2030	31,214,784	5,077,863	36,292,647
2031 - 2035	15,399,204	1,548,893	16,948,097
2036 - 2040	3,665,000	318,765	3,983,765
Total	<u>\$ 125,396,008</u>	<u>\$ 32,523,252</u>	<u>\$ 157,919,260</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2015 are as follows:

<u>Purpose</u>	<u>Amount</u>
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	1,051,590
Beebe Water Tank	756,000
Wastewater Backup Upgrades	405,000
Hancock Lane Pump	759,666
Irving Herbert Loring	836,000
McAulife Branch Library	3,711,769
Warren Road & Prindiville Water Main	2,989,476
Worc Rd Pump Stn Elimination Project Construction	15,220,000
Baiting Brook Sewer Improvements	6,268,000
Bethany Rd & Winthrop/Waverly Inters SWR Improv	680,000
Replace Engine 5	570,981
Main Street Area Wtr Imp	1,853,600
Union Ave Wtr Mains	11,940,000
Speen & Chtuate Wtr	585,000
Salem End Rd Wtr Mns	690,000
Wavrly/Winthrop Design	800,000
Union Ave Swr Improv	1,789,000
Old Danforth St Swr	690,000
Eastlgh Ltle Frm PS	805,600
Elmfield Rd Swr Impr	1,575,000
Loring Arena Renovation	5,660,000
Dennison Park Remdiation	600,000
Roadway Improve 2016	4,500,000
2-68K Packers/plow	629,000
Technology Upgrades 2	1,155,000
Farley School Pool Area	1,207,388
Callahan Sr Center Roof	575,894
Evergreen St Wtr Design	3,160,000
Speen & Chtuate Wtr	3,980,000
Worcester Road Wtr Main	637,000
Indian Head Wtr Tank	770,000
Railway Sewer Alig	9,810,000
Evergreen St Design & Construction	648,000
Shawmut Terrace Pump	1,100,000
Worcester Road Design	1,245,000
Speen Street Area Design	1,410,000
Other (131 individual projects)	19,271,148
Total	<u>\$ 116,972,844</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	\$ 2,101,091	3.64%	\$ 76,480
MWRA - Sewer	\$ 3,797,261	2.88%	109,361
MBTA and MWRTA	\$ 5,634,750	0.27%	<u>15,214</u>
			<u>\$ 201,055</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, 2015 (in thousands):

Revised equalized valuation - FY2014		\$ <u>7,611,238</u>
Debt limit - 5% of equalized valuation		\$ 380,562
Total debt outstanding	179,228	
Less: debt exempt from limit	<u>(80,854)</u>	<u>98,374</u>
Legal Debt Margin		\$ <u>282,188</u> *

* Excludes bond anticipation notes and authorized but unissued debt

F. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

	<u>Total Balance 7/1/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/15</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/15</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 55,871	\$ 7,270	\$ (9,309)	\$ 53,832	\$ (8,178)	\$ 45,654
Net OPEB obligation	90,653	21,891	(12,635)	99,909	-	99,909
Net pension liability	88,863	440	(2,510)	86,793	-	86,793
Accrued employee benefits	3,608	108	-	3,716	(2,487)	1,229
Other liabilities	<u>1,630</u>	<u>552</u>	<u>(76)</u>	<u>2,106</u>	<u>(103)</u>	<u>2,003</u>
Totals	\$ <u>240,625</u>	\$ <u>30,261</u>	\$ <u>(24,530)</u>	\$ <u>246,356</u>	\$ <u>(10,768)</u>	\$ <u>235,588</u>

	Total Balance 7/1/14	Additions	Reductions	Total Balance 6/30/15	Less Current Portion	Equals Long-Term Portion 6/30/15
<u>Business-Type Activities</u>						
Bonds payable	\$ 111,403	\$ 21,840	\$ (7,847)	\$ 125,396	\$ (8,096)	\$ 117,300
Net OPEB obligation	3,383	457	(263)	3,577	-	3,577
Net pension liability	1,860	9	(53)	1,816	-	1,816
Accrued employee benefits	153	4	-	157	(144)	13
Other liabilities	3,711	1,041	(197)	4,555	(249)	4,306
Totals	\$ <u>120,510</u>	\$ <u>23,351</u>	\$ <u>(8,360)</u>	\$ <u>135,501</u>	\$ <u>(8,489)</u>	\$ <u>127,012</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, 2015 (in thousands):

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Governmental General Fund</u>	<u>Funds Nonmajor</u>	<u>Proprietary Funds Water</u>	<u>Proprietary Funds Sewer</u>
Unavailable revenues	\$ -	\$ -	\$ 7,992	\$ 3,714	\$ -	\$ -
Gain on refunding	279	252	-	-	233	19
Total	\$ <u>279</u>	\$ <u>252</u>	\$ <u>7,992</u>	\$ <u>3,714</u>	\$ <u>233</u>	\$ <u>19</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, 2015:

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, 2015:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Prepaid expenditures	\$ 72,980	\$ -	\$ 72,980
Petty cash	550	-	550
Nonexpendable permanent funds	-	585,195	585,195
Total Nonspendable	73,530	585,195	658,725
Restricted			
Debt service	53,551	-	53,551
Bonded projects			
Bowditch Master Plan	-	875,692	875,692
Other projects	-	464,263	464,263
Special revenue funds			
State special ed reimb fund	-	1,944,704	1,944,704
Ex Office Housing & Economic Dev	-	480,902	480,902
State aid - Library	-	237,210	237,210
Government access cable television	-	1,396,305	1,396,305
School food service	-	795,367	795,367
Civic use - buildings	-	343,954	343,954
Civic use - television	-	458,001	458,001
Tuition - blocks	-	735,587	735,587
Tuition - special ed	-	200,479	200,479
Sale of real estate	-	289,518	289,518
Other special revenue funds	-	3,352,187	3,352,187
Expendable permanent funds			
Edgell Grove Cemetery trust	-	1,139,920	1,139,920
Scott trust fund	-	382,782	382,782
Other expendable permanent funds	-	624,026	624,026
Total Restricted	53,551	13,720,897	13,774,448
Committed			
Articles	5,991,601	-	5,991,601
Open space stabilization	139,852	-	139,852
Conservation	71,400	-	71,400
Capital stabilization	2,442,567	-	2,442,567
Capital project funds	-	44,546	44,546
Total Committed	8,645,420	44,546	8,689,966
Assigned			
Encumbered for:			
General government	786,516	-	786,516
Public works	348,116	-	348,116
Employee benefits	438,327	-	438,327
Other	190,393	-	190,393
For next year's expenditures	4,949,739	-	4,949,739
Total Assigned	6,713,091	-	6,713,091
Unassigned ⁽¹⁾	20,971,228	(15,021,667)	5,949,561
Total Unassigned	20,971,228	(15,021,667)	5,949,561
Total Fund Balance	\$ 36,456,820	\$ (671,029)	\$ 35,785,791

⁽¹⁾ Includes General Stabilization fund balance of \$13,585,084.

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	\$	20,971,228
Less: General Stabilization		(13,585,084)
Tax refund estimate		<u>4,556,165</u>
Statutory (UMAS) Balance	\$	<u><u>11,942,309</u></u>

19. Subsequent Events

Debt

Subsequent to June 30, 2015, 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	\$ 43,668,000	3.00-5.00%	12/10/15	11/01/40
Bond anticipation note	\$ 4,417,913	0.75%	12/11/15	12/09/16

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 2015 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, 2015, 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)	\$ 21,976,575
Interest on net OPEB obligation	3,761,441
Adjustment to ARC	<u>(3,390,312)</u>
Annual OPEB cost	22,347,704
Contributions made	<u>(12,898,678)</u>
Increase in net OPEB obligation	9,449,026
Net OPEB obligation - beginning of year	<u>94,036,071</u>
Net OPEB obligation - end of year	<u>\$ 103,485,097</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>
2015	\$ 22,347,704	57.7%	\$ 103,485,097
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 advance 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. Retirement System

The Town follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a pension trust fund in the Town's basic financial systems.

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) , the Framingham Housing Authority , and MetroWest Regional Transit are members of the Framingham Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid.

The System is governed by a five-member board. The five members include two appointed by the town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at June 30, 2015:

Retirees and beneficiaries receiving benefits	806
Terminated plan members entitled to but not yet receiving benefits	246
Active plan members	<u>1,110</u>
Total	<u><u>2,162</u></u>
Number of participating employers	3

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five year average for those first becoming members of the MA System on or after that date. Benefit payments are based upon a member's age, length

of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Town/City payroll on January 1, 1978, (3) voluntarily left Town/City employment on or after that date, and (4) left accumulated annuity deductions in the fund. A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 50 for groups 1 and 2, respectively. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

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

The Town's contribution to the System for the year ended June 30, 2015 was \$11,806,955 which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2015 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized as revenue in the period in which the members provide services to the employer. 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.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.69%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee

contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

E. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at June 30, 2015 were as follows (in thousands):

Net Pension Liability of Employers

Total pension liability	\$ 352,291
Plan fiduciary net position	<u>(259,127)</u>
Employers' net pension liability	<u>\$ 93,164</u>
Plan fiduciary net position as a percentage of total pension liability	73.6%

Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	January 1, 2014 rolled forward to December 31, 2014
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.25% for Group 1 and 4.75% for Group 4
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% on first \$12,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study, dated January 1, 2014, which was for the period January 1, 2013 through December 31, 2013.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected 22 years with Scale AA (gender distinct). Post retirement rates reflect the RP-200 Healthy Annuitant table projected

17 years with Scale AA (gender distinct). For disabled retirees, this table is set forward 3 years for males.

Target Allocations

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	18.0%	7.9%
International equity	22.0%	8.9%
Fixed Income	19.0%	5.9%
Private equity	10.0%	9.8%
Real estate	10.0%	6.5%
Timber/Natural Resources	4.0%	6.9%
Hedge Funds	9.0%	7.0%
Private Debt	4.0%	8.3%
Portfolio Completion Strategies	4.0%	N/A

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is

1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate (in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2015	\$ 124,941	\$ 88,609	\$ 57,254

F. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Town reported a liability of \$ 88,609,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the Town's proportion was 95.11 percent.

For the year ended June 30, 2015, the Town recognized pension expense of \$9,337,000. In addition, the Town reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ <u>449,000</u>
Total	\$ <u><u>449,000</u></u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 112,250
2017	112,250
2018	112,250
2019	<u>112,250</u>
Total	\$ <u><u>449,000</u></u>

23. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by

employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan

investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.0%	7.2%	7.70%
Core fixed income	13.0%	2.5%	2.00%
Hedge funds	10.0%	5.5%	4.75%
Private equity	10.0%	8.8%	9.00%
Real estate	10.0%	6.3%	6.00%
Value added fixed income	10.0%	6.3%	6.30%
Timber/natural resources	<u>4.0%</u>	5.0%	5.00%
Total	<u>100.0%</u>		

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$ 21,426,000	\$ 17,234,000	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,000	\$ 12,200,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2014 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$164,027,046 and \$11,395,746 respectively, based on a proportionate share of 1.03%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities

24. 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, 2015 are as follows:

	<u>Dental Coverage</u>
Claims liability, beginning of year	\$ 4,221,683
Claims incurred/recognized in fiscal year 2015	3,057,414
Claims paid in fiscal year 2015	<u>(3,611,854)</u>
Claims liability, end of year	<u>\$ 3,667,243</u>

The \$3,667,243 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.

25. 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.

26. Beginning Net Position Restatement

The beginning (July 1, 2014) net position of the Town has been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
As previously reported	\$ 100,628,704	\$ 74,147,444
Implementation of GASB 68	<u>(88,863,178)</u>	<u>(1,859,822)</u>
As restated	<u>\$ 11,765,526</u>	<u>\$ 72,287,622</u>

Fund Basis Financial Statements:

	<u>Water Fund</u>	<u>Sewer Fund</u>
As previously reported	\$ 35,207,778	\$ 38,939,666
Implementation of GASB 68	<u>(1,088,676)</u>	<u>(771,146)</u>
As restated	<u>\$ 34,119,102</u>	<u>\$ 38,168,520</u>

	<u>Pension Trust Fund</u>
As previously reported	\$ 237,904,497
Implementation of GASB 67	<u>5,911,500</u>
As restated	<u>\$ 243,815,997</u>

TOWN OF FRAMINGHAM, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015
(Unaudited)
(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
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.

TOWN OF FRAMINGHAM, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015
(Unaudited)

<u>Framingham Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	95.11%
Proportionate share of the net pension liability for the most recent measurement date	\$ 88,609,000
Covered-employee payroll for the most recent measurement date	\$ 55,714,767
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	159%
Plan fiduciary net position as a percentage of the total pension liability	73.6%
 <u>Massachusetts Teachers' Retirement System:</u>	 <u>2015</u>
Proportion of the net pension liability for the most recent measurement date	1.03%
The Town's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the Town	<u>164,027,046</u>
Total net pension liability associated with the Town	<u>\$ 164,027,046</u>
Covered-employee payroll for the most recent measurement date	\$ 63,322,829
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

TOWN OF FRAMINGHAM, MASSACHUSETTS

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015
(Unaudited)**

<u>Framingham Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 11,806,955
Contributions in relation to the contractually required contribution	<u>(11,806,955)</u>
Contribution deficiency (excess)	\$ <u><u>-</u></u>
Covered-employee payroll for the current fiscal year	\$ 57,063,827
Contributions as a percentage of covered-employee payroll	20.7%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

**TOWN OF FRAMINGHAM, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability

(Unaudited)
(in thousands)

	<u>2015</u>
Total pension liability	
Service cost	\$ 7,704
Interest on unfunded liability - time value of \$	26,082
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(20,678)</u>
Net change in total pension liability	13,108
Total pension liability - beginning	<u>339,183</u>
Total pension liability - ending (a)	<u>\$ 352,291</u>
Plan fiduciary net position	
Contributions - employer	\$ 12,470
Contributions - member	5,653
Net investment income	18,194
Benefit payments, including refunds of member contributions	(20,678)
Administrative expense	(351)
Other	<u>23</u>
Net change in plan fiduciary net position	15,311
Plan fiduciary net position - beginning	<u>243,816</u>
Plan fiduciary net position - ending (b)	<u>\$ 259,127</u>
Net pension liability (asset) - ending (a-b)	<u>\$ 93,164</u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**TOWN OF FRAMINGHAM, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)
(in thousands)

Schedule of Net Pension Liability

	<u>2015</u>
Total pension liability	\$ 352,291
Plan fiduciary net position	<u>(259,127)</u>
Net pension liability (asset)	<u>\$ 93,164</u>
Plan fiduciary net position as a percentage of the total pension liability	73.6%
Covered employee payroll	\$ 55,766
Participating employer net pension liability (asset) as a percentage of covered employee payroll	167.1%

Schedule of Contributions

	<u>2015</u>
Actuarially determined contribution	\$ 12,414
Contributions in relation to the actuarially determined contribution	<u>12,414</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 55,766
Contributions as a percentage of covered employee payroll	22.26%

Schedule of Investment Returns

Year Ended December 31

	<u>2014</u>
Annual money weighted rate of return, net of investment expense	7.69%

*Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.*

See Independent Auditors' Report.