

**TOWN OF
FRAMINGHAM, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
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, 2017 (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2016), 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.

Auditors' 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 auditors' 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, Massachusetts, as of June 30, 2017 (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2016), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB schedules appearing on pages 72 to 77 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 29, 2018 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 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2017.

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, liabilities, and deferred outflows/inflows of resources, with the difference 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 Town'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, culture and recreation, employee benefits, interest, and intergovernmental. The business-type activities include utility services.

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 Town'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 fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for utility operations, which is considered to be a major fund.

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.

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 and deferred outflows exceeded liabilities and deferred inflows by \$(123,791,010) (i.e., net position), a change of \$(12,599,188) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$55,141,095, a change of \$2,030,404 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$32,318,106, a change of \$(669,158) in comparison to the prior year, while committed fund balance was \$6,754,078, a change of \$2,462,437 in comparison to the prior year. The decrease in unassigned fund balance and increase in committed fund balance primarily resulted from the Town appropriating free cash to fund the special education reserve fund as well as continued funding of the capital stabilization fund.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>NET POSITION</u>					
	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 107,027,712	\$ 105,871,787	\$ 36,260,671	\$ 32,859,506	\$ 143,288,383	\$ 138,731,293
Capital assets	216,827,123	210,834,577	222,145,179	209,803,370	438,972,302	420,637,947
Total assets	323,854,835	316,706,364	258,405,850	242,662,876	582,260,685	559,369,240
Deferred outflows of resources	27,428,029	14,431,568	570,372	296,533	27,998,401	14,728,101
Long-term liabilities	505,659,562	475,090,423	166,832,978	157,885,549	672,492,540	632,975,972
Notes payable	9,256,454	5,202,473	14,310,497	11,016,899	23,566,951	16,219,372
Other liabilities	31,759,927	32,180,943	4,915,011	3,388,110	36,674,938	35,569,053
Total liabilities	546,675,943	512,473,839	186,058,486	172,290,558	732,734,429	684,764,397
Deferred inflows of resources	793,418	297,966	522,249	226,800	1,315,667	524,766
Net position:						
Net investment in capital assets	142,321,595	140,243,648	56,713,243	57,138,257	199,034,838	197,381,905
Restricted	13,082,676	13,247,277	-	-	13,082,676	13,247,277
Unrestricted	(351,590,768)	(335,124,798)	15,682,244	13,303,794	(335,908,524)	(321,821,004)
Total net position	\$ (196,186,497)	\$ (181,633,873)	\$ 72,395,487	\$ 70,442,051	\$ (123,791,010)	\$ (111,191,822)

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 \$(123,791,010), a change of \$(12,599,188) from the prior year. The net position deficit results from recording the Town's net pension liability (GASB 68) and the net OPEB liability (GASB 75).

The largest portion of net position, \$199,034,838, 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, \$13,082,676, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position deficit of \$(335,908,524) primarily results from the Town's unfunded net pension liability and net OPEB liability, as noted earlier.

	<u>CHANGES IN NET POSITION</u>					
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 19,469,046	\$ 22,680,915	\$ 47,258,925	\$ 46,422,409	\$ 66,727,971	\$ 69,103,324
Operating grants and contributions	86,330,762	77,244,699	-	-	86,330,762	77,244,699
Capital grants and contributions	1,694,551	2,419,388	1,144,115	23,726	2,838,666	2,443,114
General revenues:						
Property taxes	180,100,958	175,056,162	-	-	180,100,958	175,056,162
Excises	8,710,932	8,094,079	-	-	8,710,932	8,094,079
Penalties, interest and other taxes	4,497,309	5,019,170	-	-	4,497,309	5,019,170
Grants and contributions not restricted to specific programs	9,914,831	9,524,657	-	-	9,914,831	9,524,657
Investment income	1,033,610	1,094,565	36,042	37,160	1,069,652	1,131,725
Miscellaneous	2,536,240	3,856,710	254,186	532,033	2,790,426	4,388,743
Total revenues	314,288,239	304,990,345	48,693,268	47,015,328	362,981,507	352,005,673
Expenses:						
General government	11,352,917	17,158,777	-	-	11,352,917	17,158,777
Public safety	37,447,430	36,330,789	-	-	37,447,430	36,330,789
Education	185,598,376	172,179,545	-	-	185,598,376	172,179,545
Public works	18,723,748	16,589,317	-	-	18,723,748	16,589,317
Human services	1,796,363	1,945,884	-	-	1,796,363	1,945,884
Culture and recreation	8,622,734	8,575,497	-	-	8,622,734	8,575,497
Employee benefits	54,785,744	51,825,197	-	-	54,785,744	51,825,197
Interest	3,290,680	2,777,303	-	-	3,290,680	2,777,303
Intergovernmental	7,222,871	6,570,346	-	-	7,222,871	6,570,346
Utility services	-	-	46,739,832	46,309,170	46,739,832	46,309,170
Total expenses	328,840,863	313,952,655	46,739,832	46,309,170	375,580,695	360,261,825
Change in net position	(14,552,624)	(8,962,310)	1,953,436	706,158	(12,599,188)	(8,256,152)
Net position - beginning of year, as restated	<u>(181,633,873)</u>	<u>(172,671,563)</u>	<u>70,442,051</u>	<u>69,735,893</u>	<u>(111,191,822)</u>	<u>(102,935,670)</u>
Net position - end of year	<u>\$ (196,186,497)</u>	<u>\$ (181,633,873)</u>	<u>\$ 72,395,487</u>	<u>\$ 70,442,051</u>	<u>\$ (123,791,010)</u>	<u>\$ (111,191,822)</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(14,552,624). Key elements of this change are as follows:

General fund revenues exceeding expenditures	\$ 1,562,027
Massachusetts School Building Authority accrual	(2,129,672)
Depreciation in excess of debt service principal paydown	(4,458,077)
Increase in net OPEB liability	(12,099,056)
Increase in net pension liability	(17,410,612)
Increase in deferred outflows related to net pension liability	12,653,181
Capital assets acquired from current year revenues	9,181,040
Other	<u>(1,851,455)</u>
Total	\$ (14,552,624)

Business-type activities. Business-type activities for the year resulted in a change in net position of \$1,953,436.

The increase in the net position for the business-type activity results from current depreciation (not funded in the rates) being lower than long-term debt principal payments (funded in the rates) as well as capital grants and contributions.

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 \$55,141,095, a change of \$2,030,404 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 \$32,318,106 (including \$14,963,130 of general stabilization funds), while total fund balance was \$51,450,979. 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.

General Fund	6/30/17	6/30/16	Change	% of Total General Fund Expenditures	
Unassigned fund balance	\$ 32,318,106	\$ 32,987,264	\$ (669,158)		11.5%
Total fund balance	\$ 51,450,979	\$ 46,794,650	\$ 4,656,329		18.3%

The total fund balance of the general fund changed by \$4,656,329 during the current fiscal year. Key factors in this change are as follows:

Use of free cash	\$ (6,801,893)
Transfers to stabilization funds	<u>1,286,944</u>
Subtotal	(5,514,949)
Revenues greater than budget	1,642,799
Expenditures less than budget	6,483,883
Change in encumbrances	931,829
Stabilization income, net of transfers	840,446
Other	<u>272,321</u>
Total	\$ <u>4,656,329</u>

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

	<u>6/30/17</u>	<u>6/30/16</u>	<u>Change</u>
General stabilization	\$ 14,963,130	\$ 14,147,341	\$ 815,789
Open space stabilization	145,065	145,357	(292)
Capital stabilization	5,017,946	3,705,897	1,312,049
Conservation	<u>76,993</u>	<u>77,149</u>	<u>(156)</u>
Total	<u>\$ 20,203,134</u>	<u>\$ 18,075,744</u>	<u>\$ 2,127,390</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 \$15,682,244, a change of \$2,378,450 from the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$1,560,929, primarily due to a change in the snow and ice and the school department's appropriation. The additional appropriations were primarily funded by an increase to the tax levy and transfers from other funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$438,972,302 (net of accumulated depreciation), a change of \$18,334,355 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:

CAPITAL ASSETS
(net of depreciation)
June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	<u>2017</u>		<u>2016</u>		<u>2017</u>	<u>2016</u>
Land	\$ 20,032,103	\$ 20,032,103	\$ 1,136,233	\$ 1,136,233	\$ 21,168,336	\$ 21,168,336
Buildings and improvements	116,802,912	117,801,217	34,781,585	32,875,285	151,584,497	150,676,502
Vehicles, machinery, and equipment	22,926,261	22,744,821	4,925,609	4,427,720	27,851,870	27,172,541
Infrastructure	51,545,306	44,735,895	168,979,634	159,451,406	220,524,940	204,187,301
Construction in progress	5,520,541	5,520,541	12,322,118	11,912,726	17,842,659	17,433,267
Total	<u>\$ 216,827,123</u>	<u>\$ 210,834,577</u>	<u>\$ 222,145,179</u>	<u>\$ 209,803,370</u>	<u>\$ 438,972,302</u>	<u>\$ 420,637,947</u>

Significant capital asset activity for fiscal year 2017 included (in thousands):

- At the 2009 Annual Town Meeting, \$40,337 was 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, \$7,684 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 the Clean Water State Revolving Fund loan program for which \$34,814 has been issued, which includes \$4,461 of ARRA funding. To date, \$40,394 has been expended on Phase I.
- At the 2010 Annual Town Meeting, \$17,967 was voted for additional water capital projects. Currently, \$4,734 has been expended from the \$9,619 appropriated for North Concord Street water mains project. Further, \$5,959 has been expended from the \$6,263 appropriation for Grant and Pond Streets project and is substantially complete. \$1,330 has been expended on the design of the Goodnow Pump Station authorized for \$1,385. 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, \$5,415 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, \$2,671 and \$1,757 was expended, respectively, and are substantially complete. In addition, \$6,210 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 \$1,898 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, have been expended of \$1,642 and \$2,307, respectively. \$2,776 was expended from the \$3,214 appropriation for Beebe water storage tanks; and \$2,370 was expended on the \$2,400 appropriation for East Framingham sewer improvements and Central Street Siphon Sudbury River projects.
- At the 2013 Annual Town Meeting, \$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, \$300 has been expended. Design costs of \$820 have been expended from the \$6,563 appropriation for the Baiting Road sewer improvements. \$972 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 is substantially complete. Of the \$1,000 appropriated for refuse collection bins and \$1,337 appropriated for automatic refuse packers to modernize the refuse collection operations, \$998 and \$1,330 has been expended, respectively, and are complete. \$18,016 was appropriated for water capital and major equipment purchases. \$2,760 and \$2,647 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 \$846 has been expended; \$1,880 appropriated for the Union Avenue sewer improvements, for which \$1,335 was expended; and \$1,585 appropriated for the Elmfield Road sewer improvements, of which \$1,014 has been expended.
- At the 2015 Annual Town Meeting, \$19,523 was appropriated for a variety of Town capital and major equipment projects. \$1,090 has been expended of \$5,660 for renovations to the Loring Arena; however, an additional appropriation of \$389 was requested at the October 2016 Special Town Meeting. \$4,487 was expended of the \$4,500 appropriated for Roadway Improvements and is substantially completed. The \$1,155 appropriated for School Technology Upgrades has been completed. The Farley Building Repairs appropriated for \$1,207 was completed with an additional \$25 transfer from another project within the article. \$10,291 was appropriated for water capital and major equipment purchases. The Evergreen Street area project for design and construction appropriated for \$3,160 has not started. \$2,367 was expended from the \$3,980 appropriated for water main construction in the Speen Street and Cochituate Road area. \$16,596 was appropriated for Sewer capital and major equipment purchases. The Interchange 12 Railway Sewer alignment design and construction project appropriated for \$9,810 has started and \$40 has been expended. \$272 has been expended from the \$1,100 appropriated for the design of the Shawmut Terrace and John McQuinn Pump Stations as well as Woodland

Force main improvements. \$801 was expended from the \$1,245 appropriation for design of the Worcester Road area sewer improvements. The design and construction force main abandonment project for the Speen Street area appropriated for \$1,410 has not started.

- At the 2016 Annual Town Meeting, \$12,445 was appropriated for a variety of Town capital and major equipment projects, the largest being \$1,204 for replacement of Arial Platform Ladder Truck for which a contract has been signed. \$2,912 has been expended from the \$4,200 appropriation for Roadway Improvements. The appropriations of \$1,000 for School Technology Upgrades and \$1,400 for the Paving, Storm Water and School Field Repairs were substantially completed with expenditures of \$981 and \$1,383, respectively. The Water and Sewer Enterprise funds were combined into a single Utility Enterprise Fund. \$16,521 was appropriated for Water and Sewer capital and major equipment purchases, of which the \$2,100 appropriation for Phase 1 of Sewer System Evaluation Survey Defects and Repairs has had \$981 of expenditures and the appropriation of \$9,980 for Construction of Indian Head Water Tank Replacement has had expenditures of \$1,126.
- At the 2017 Annual Town Meeting, \$17,757 was appropriated for a variety of Town capital and major equipment projects, the largest being \$2,450 for Village Hall design and construction, \$5,300 for Roadway Improvements and \$3,050 for Intersection Improvements for Edgell, Water and Edmands Roads. \$13,677 was appropriated for Water and Sewer capital and major equipment purchases, the largest being \$2,234 for Interchange 12 Sewer Improvement Upsizing and Risks Reduction, \$6,135 for Eastleigh, Little Farms and Shawmut Pump Station replacements.

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 \$250,429,174, 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:

OUTSTANDING DEBT
General Obligation Bonds and Bond Anticipation Notes
June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 69,048,201	\$ 69,105,755	\$ 157,814,022	\$ 149,817,997	\$ 226,862,223	\$ 218,923,752
Bond anticipation notes	<u>9,256,454</u>	<u>5,202,473</u>	<u>14,310,497</u>	<u>11,016,899</u>	<u>23,566,951</u>	<u>16,219,372</u>
Total	<u>\$ 78,304,655</u>	<u>\$ 74,308,228</u>	<u>\$ 172,124,519</u>	<u>\$ 160,834,896</u>	<u>\$ 250,429,174</u>	<u>\$ 235,143,124</u>

Change in credit rating. The Town 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 \$421,777,305, 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 (in thousands)

- The unadjusted unemployment rate for the Town of Framingham is currently 3.7% (June), which is up from the 3.3% rate from June 2016. This compares to the State's unemployment rate of 3.8% and the national rate of 4.3%
- 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 2018 fiscal year.
- During the current fiscal year, unassigned fund balance in the general fund decreased to \$32,318. In addition, the Town of Framingham has appropriated \$9,744 of "free cash" to finance the FY18 general fund operating budget, of which \$321 for Stabilization and \$5,010 to a Capital Stabilization fund. In addition, \$1,000 of Free Cash was appropriated to create a Reserve Fund for unanticipated or unbudgeted Special Education, out-of-district tuition or transportation costs.
- In FY17, the Town transferred \$271 into the Stabilization fund. The Stabilization fund is currently maintained at 5% of the Town's operating budget. The Capital Stabilization fund established in FY16 has a balance of \$5,018.
- The \$14,144 of free cash certified by the Massachusetts Department of Revenue as of July 1, 2017 is available, subject to appropriation, to finance FY18 and FY19 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, 2017

	Governmental Activities	Business-Type Activities	<u>Total</u>
Assets			
Current:			
Cash and short-term investments	\$ 63,732,723	\$ 19,387,380	\$ 83,120,103
Investments	26,188,852	-	26,188,852
Receivables, net of allowance for uncollectibles:			
Property taxes	1,889,299	-	1,889,299
Motor vehicle excise	1,172,866	-	1,172,866
User fees	1,001,795	15,244,068	16,245,863
Departmental	181,868	-	181,868
Intergovernmental	7,083,670	73,192	7,156,862
Assessments	-	2,786	2,786
Other assets	146,601	-	146,601
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax title	1,266,596	-	1,266,596
Departmental	926,800	-	926,800
Intergovernmental	3,436,642	909,575	4,346,217
Assessments	-	643,670	643,670
Land and construction in progress	25,552,644	13,458,351	39,010,995
Other capital assets, net of accumulated depreciation	191,274,479	208,686,828	399,961,307
Deferred Outflows of Resources			
Related to pensions	27,252,629	570,372	27,823,001
Other	<u>175,400</u>	<u>-</u>	<u>175,400</u>
Total Assets and Deferred Outflows of Resources			
	351,282,864	258,976,222	610,259,086
Liabilities			
Current:			
Warrants payable	9,061,186	4,098,276	13,159,462
Accounts payable	63,188	14,887	78,075
Accrued payroll	11,212,460	114,696	11,327,156
Accrued liabilities	5,717,069	687,152	6,404,221
Tax refunds payable	5,078,494	-	5,078,494
Notes payable	9,256,454	14,310,497	23,566,951
Other liabilities	627,530	-	627,530
Current portion of long-term liabilities:			
Bonds payable	11,094,821	11,696,612	22,791,433
Compensated absences	2,562,017	153,009	2,715,026
Capital leases	486,579	-	486,579
Noncurrent:			
Bonds payable, net of current portion	57,953,380	146,117,410	204,070,790
Net pension liability	118,111,049	2,471,952	120,583,001
Net OPEB liability	307,590,109	6,379,765	313,969,874
Compensated absences, net of current portion	1,380,228	14,230	1,394,458
Capital leases, net of current portion	6,481,379	-	6,481,379
Deferred Inflows of Resources			
Related to pensions	477,996	10,004	488,000
Other	<u>315,422</u>	<u>512,245</u>	<u>827,667</u>
Total Liabilities and Deferred Inflows of Resources			
	547,469,361	186,580,735	734,050,096
Net Position			
Net investment in capital assets	142,321,595	56,713,243	199,034,838
Restricted for:			
Grants and other statutory restrictions	10,267,168	-	10,267,168
Permanent funds:			
Nonexpendable	523,192	-	523,192
Expendable	2,292,316	-	2,292,316
Unrestricted	<u>(351,590,768)</u>	<u>15,682,244</u>	<u>(335,908,524)</u>
Total Net Position	<u>\$ (196,186,497)</u>	<u>\$ 72,395,487</u>	<u>\$ (123,791,010)</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, 2017

	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	\$ 11,352,917	\$ 2,470,703	\$ 100,561	\$ 507,707	\$ (8,273,946)	\$ -	\$ (8,273,946)
Public safety	37,447,430	6,806,885	887,778	-	(29,752,767)	-	(29,752,767)
Education	185,598,376	5,829,355	82,139,133	-	(97,629,888)	-	(97,629,888)
Public works	18,723,748	752,919	2,254,685	1,002,180	(14,713,964)	-	(14,713,964)
Health and human services	1,796,363	154,055	731,984	-	(910,324)	-	(910,324)
Culture and recreation	8,622,734	985,110	216,621	184,664	(7,236,339)	-	(7,236,339)
Employee benefits	54,785,744	2,470,019	-	-	(52,315,725)	-	(52,315,725)
Interest	3,290,680	-	-	-	(3,290,680)	-	(3,290,680)
Intergovernmental	7,222,871	-	-	-	(7,222,871)	-	(7,222,871)
Total Governmental Activities	328,840,863	19,469,046	86,330,762	1,694,551	(221,346,504)	-	(221,346,504)
Business-Type Activities							
Utility services	46,739,832	47,258,925	-	1,144,115	-	1,663,208	1,663,208
Total Business-type Activities	46,739,832	47,258,925	-	1,144,115	-	1,663,208	1,663,208
Total Primary Government	\$ 375,580,695	\$ 66,727,971	\$ 86,330,762	\$ 2,838,666	(221,346,504)	1,663,208	(219,683,296)
General Revenues							
Property taxes					180,100,958	-	180,100,958
Excises					8,710,932	-	8,710,932
Penalties, interest and other taxes					4,497,309	-	4,497,309
Grants and contributions not restricted to specific programs					9,914,831	-	9,914,831
Investment income					1,033,610	36,042	1,069,652
Miscellaneous					2,536,240	254,186	2,790,426
Total general revenues					206,793,880	290,228	207,084,108
Change in Net Position					(14,552,624)	1,953,436	(12,599,188)
Net Position							
Beginning of Year, as restated					(181,633,873)	70,442,051	(111,191,822)
End of Year					\$ (196,186,497)	\$ 72,395,487	\$ (123,791,010)

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and short-term investments	\$ 47,624,009	\$ 10,170,747	\$ 57,794,756
Investments	24,078,998	2,109,854	26,188,852
Receivables:			
Property taxes	4,616,626	-	4,616,626
Motor vehicle excise	3,123,508	-	3,123,508
User fees	-	1,001,795	1,001,795
Departmental and other	30,665	926,800	957,465
Intergovernmental	266,744	4,687,255	4,953,999
Other assets	<u>15,874</u>	<u>130,727</u>	<u>146,601</u>
Total Assets	<u>\$ 79,756,424</u>	<u>\$ 19,027,178</u>	<u>\$ 98,783,602</u>
Liabilities			
Warrants payable	\$ 4,647,652	\$ 4,391,061	\$ 9,038,713
Accounts payable	-	63,188	63,188
Accrued payroll	10,558,478	653,982	11,212,460
Accrued liabilities	2,395	-	2,395
Tax refunds payable	5,078,494	-	5,078,494
Notes payable	-	9,256,454	9,256,454
Other liabilities	<u>586,823</u>	<u>40,707</u>	<u>627,530</u>
Total Liabilities	20,873,842	14,405,392	35,279,234
Deferred Inflows of Resources			
Unavailable revenues	7,431,603	931,670	8,363,273
Fund Balances			
Nonspendable	34,909	523,192	558,101
Restricted	45,313	14,550,129	14,595,442
Committed	6,754,078	196,457	6,950,535
Assigned	12,298,573	-	12,298,573
Unassigned	<u>32,318,106</u>	<u>(11,579,662)</u>	<u>20,738,444</u>
Total Fund Balances	<u>51,450,979</u>	<u>3,690,116</u>	<u>55,141,095</u>
Total Liabilities, Deferred Inflows Of Resources, and Fund Balances			
	<u>\$ 79,756,424</u>	<u>\$ 19,027,178</u>	<u>\$ 98,783,602</u>

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2017

Total governmental fund balances	\$ 55,141,095
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	216,827,123
• Noncurrent assets, including MSBA reimbursements for contracted assistance, are not receivable in the current period and, therefore, are not reported in the governmental funds.	5,566,313
• Deferred outflow of resources related to pensions will be recognized as an increase of pension expense in future years.	27,252,629
• Deferred loss on refunding bonds.	175,400
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	4,951,900
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(344,858)
• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(69,048,201)
Net pension liability	(118,111,049)
Net OPEB liability	(307,590,109)
Compensated absences liability	(3,942,245)
Capital leases	(6,967,958)
• Deferred inflow of resources related to pensions will be recognized as a reduction of pension expense in future years.	(477,996)
• Deferred gain on refunding bonds.	(315,422)
• 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 Position.	696,881
Net position of governmental activities	<u>\$ (196,186,497)</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, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 179,868,875	\$ -	\$ 179,868,875
Excises	8,733,645	-	8,733,645
Penalties, interest and other taxes	4,497,309	-	4,497,309
Charges for services	2,695,968	10,437,506	13,133,474
Intergovernmental	82,090,548	19,367,307	101,457,855
Licenses and permits	3,502,658	35,125	3,537,783
Fines and forfeitures	447,076	12,257	459,333
Investment income	822,974	76,400	899,374
Contributions	-	648,227	648,227
Miscellaneous	<u>516,905</u>	<u>2,095,834</u>	<u>2,612,739</u>
Total Revenues	283,175,958	32,672,656	315,848,614
Expenditures			
Current:			
General government	11,088,218	1,218,999	12,307,217
Public safety	28,506,462	4,442,346	32,948,808
Education	154,970,949	18,425,217	173,396,166
Public works	11,486,895	2,685,754	14,172,649
Human services	1,280,030	352,344	1,632,374
Culture and recreation	6,426,332	624,677	7,051,009
Employee benefits	46,993,832	-	46,993,832
Debt service	13,638,342	-	13,638,342
Intergovernmental	7,222,871	-	7,222,871
Capital outlay	<u>-</u>	<u>16,128,063</u>	<u>16,128,063</u>
Total Expenditures	<u>281,613,931</u>	<u>43,877,400</u>	<u>325,491,331</u>
Excess (Deficiency) of revenues over expenditures	1,562,027	(11,204,744)	(9,642,717)
Other Financing Sources (Uses)			
Proceeds from bond issuances	-	9,501,120	9,501,120
Proceeds from refunding bonds	1,227,645	-	1,227,645
Premiums on bond issuances	513,610	483,852	997,462
Proceeds from leases	1,252,753	-	1,252,753
Payment to escrow agent	(1,305,859)	-	(1,305,859)
Transfers in	1,646,481	240,328	1,886,809
Transfers out	<u>(240,328)</u>	<u>(1,646,481)</u>	<u>(1,886,809)</u>
Total Other Financing Sources (Uses)	<u>3,094,302</u>	<u>8,578,819</u>	<u>11,673,121</u>
Change in fund balance	4,656,329	(2,625,925)	2,030,404
Fund Balance at Beginning of Year	<u>46,794,650</u>	<u>6,316,041</u>	<u>53,110,691</u>
Fund Balance at End of Year	<u>\$ 51,450,979</u>	<u>\$ 3,690,116</u>	<u>\$ 55,141,095</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, 2017

Net changes in fund balances - Total governmental funds	\$ 2,030,404
• 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:	
Capital outlay purchases	22,378,621
Depreciation	(16,320,576)
Loss on disposal of assets	(65,499)
• 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.	(1,969,459)
• 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.	(2,129,672)
• 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:	
Issuance of bonds	(10,728,765)
Repayments of bonds	11,611,947
Issuance of capital leases	(1,252,753)
Repayments of capital leases	250,552
Premiums from issuance of bonds	(997,462)
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	21,912
• 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:	
Change in net pension liability	(17,410,612)
Change in pension related deferred outflows	13,084,161
Change in pension related deferred inflows	(430,980)
Change in net OPEB liability	(12,099,056)
Change in other liabilities	(114,823)
Bond premium amortization	171,834
Gain on bond refunding	(92,355)
Amortize gain on refunding bonds	27,883
Amortize loss on prior years refunding bonds	(87,700)
• 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.	(430,226)
Change in net position of governmental activities	\$ (14,552,624)

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, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues and Transfers In				
Property taxes	\$ 177,928,549	\$ 179,504,264	\$ 179,868,875	\$ 364,611
Excise	8,094,980	8,355,000	8,733,647	378,647
Penalties, interest and other taxes	4,743,750	4,874,084	4,497,306	(376,778)
Charges for services	2,645,160	2,704,100	2,695,968	(8,132)
Intergovernmental	56,421,168	56,773,901	57,815,094	1,041,193
Licenses and permits	2,993,710	3,112,000	3,502,657	390,657
Fines and forfeitures	414,370	425,000	447,075	22,075
Investment income	97,220	100,000	182,528	82,528
Miscellaneous	1,421,541	470,324	611,036	140,712
Transfers in	3,878,110	4,480,814	4,088,896	(391,918)
Total Revenues and Transfers In	258,638,558	260,799,487	262,443,082	1,643,595
Expenditures and Transfers Out				
General government division	3,692,030	3,648,926	3,280,289	368,637
Finance division	2,402,170	2,466,584	2,374,266	92,318
Technology services division	2,080,807	2,183,013	2,119,961	63,052
Human resources division	1,105,972	1,124,753	1,042,882	81,871
Planning and economic development	515,024	526,746	523,007	3,739
Police division	14,881,008	14,871,256	14,186,500	684,756
Fire division	14,213,880	14,372,329	13,759,192	613,137
Public works division	10,133,310	10,331,705	10,250,185	81,520
Snow and ice appropriation	1,645,397	2,450,397	2,450,274	123
Parks/recreation/cultural affair	3,821,492	3,872,159	3,721,735	150,424
Inspectional services division	2,312,326	2,332,896	2,065,791	267,105
Framingham public schools	122,550,690	123,216,369	121,564,057	1,652,312
Keefe technical school assessment	8,997,424	8,997,424	8,997,424	-
Framingham public library	3,068,210	3,225,099	3,158,954	66,145
Planning board	228,374	226,013	180,276	45,737
Town clerk/elections	461,856	467,673	388,848	78,825
Town clerk stipend	97,033	100,430	100,430	-
Stabilization transfer	991,948	1,015,708	1,015,708	-
Reserve fund	400,000	400,000	-	400,000
Miscellaneous unclassified	33,878,991	32,913,308	31,864,444	1,048,864
Transfers to other funds	458,236	458,236	458,236	-
Retirement/Medicare appropriation	15,645,782	15,645,782	15,381,990	263,792
Debt service	13,839,340	13,839,340	12,923,452	915,888
Non-appropriated items	7,249,151	7,249,151	7,643,513	(394,362)
Articles	1,370,000	1,666,083	1,666,083	-
Total Expenditures and Transfers Out	266,040,451	267,601,380	261,117,497	6,483,883
Excess of revenues and transfers in over expenditures and transfers out	(7,401,893)	(6,801,893)	1,325,585	8,127,478
Other Financing Sources				
Use of free cash/overlay surplus - operating budget	7,214,893	6,614,893	-	(6,614,893)
Use of free cash - capital	187,000	187,000	-	(187,000)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,325,585	\$ 1,325,585

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

TOWN OF FRAMINGHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2017

	<u>Business-Type Activities</u> <u>Enterprise Funds</u>	<u>Governmental</u> <u>Activities</u> <u>Internal</u> <u>Service</u> <u>Funds</u>
	<u>Utility</u> <u>Fund</u>	
Assets		
Current:		
Cash and short-term investments	\$ 19,387,380	\$ 5,937,967
User fees, net of allowance for uncollectibles	15,244,068	-
Intergovernmental	73,192	-
Assessments	2,786	-
Other assets	-	<u>151,203</u>
Total current assets	34,707,426	6,089,170
Noncurrent:		
Intergovernmental	909,575	-
Assessments	643,670	-
Land and construction in progress	13,458,351	-
Other capital assets, net of accumulated depreciation	208,686,828	-
Total noncurrent assets	223,698,424	-
Deferred Outflows of Resources		
Related to pensions	<u>570,372</u>	-
Total Assets and Deferred Outflows of Resources	<u>258,976,222</u>	6,089,170
Liabilities		
Current:		
Warrants payable	4,098,276	22,473
Accounts payable	14,887	-
Accrued payroll	114,696	-
Accrued liabilities	687,152	5,369,816
Notes payable	14,310,497	-
Current portion of long-term liabilities:		
Bonds payable	11,696,612	-
Compensated absences	<u>153,009</u>	-
Total current liabilities	31,075,129	<u>5,392,289</u>
Noncurrent:		
Bonds payable, net of current portion	146,117,410	-
Net pension liability	2,471,952	-
Net OPEB liability	6,379,765	-
Compensated absences, net of current portion	<u>14,230</u>	-
Total noncurrent liabilities	154,983,357	-
Deferred Inflows of Resources		
Related to pensions	10,004	-
Other	<u>512,245</u>	-
Total Liabilities and Deferred Inflows of Resources	<u>186,580,735</u>	5,392,289
Net Position		
Net investment in capital assets	56,713,243	-
Unrestricted	<u>15,682,244</u>	<u>696,881</u>
Total Net Position	<u>\$ 72,395,487</u>	<u>\$ 696,881</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, 2017

	<u>Business-Type Activities</u> <u>Enterprise Funds</u>	<u>Governmental</u> <u>Activities</u> <u>Internal</u> <u>Service</u> <u>Fund</u>
Operating Revenues		
Charges for services	\$ 47,032,282	\$ 2,470,019
Other	226,643	-
Total Operating Revenues	<u>47,258,925</u>	<u>2,470,019</u>
Operating Expenses		
Salaries and benefits	8,670,284	3,034,481
Operating expenses	4,263,268	-
Depreciation	8,405,211	-
MWRA assessments	<u>21,004,856</u>	-
Total Operating Expenses	<u>42,343,619</u>	<u>3,034,481</u>
Operating Income (Loss)	4,915,306	(564,462)
Nonoperating Revenues (Expenses)		
Investment income	36,042	134,236
Interest expense	(4,396,213)	-
Other nonoperating income	<u>254,186</u>	-
Total Nonoperating Revenues (Expenses), Net	<u>(4,105,985)</u>	<u>134,236</u>
Income (Loss) Before Capital Contributions	809,321	(430,226)
Capital contributions	<u>1,144,115</u>	-
Change in Net Position	1,953,436	(430,226)
Net Position at Beginning of Year, as restated	<u>70,442,051</u>	<u>1,127,107</u>
Net Position at End of Year	<u>\$ 72,395,487</u>	<u>\$ 696,881</u>

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, 2017

	<u>Business-Type Activities</u> <u>Enterprise Funds</u>	<u>Governmental Activities</u> <u>Internal Service Fund</u>
Cash Flows From Operating Activities		
Receipts from customers and users	\$ 47,227,504	\$ 2,419,255
Payments to vendors	(23,002,409)	-
Payments to employees for salaries and benefits	(8,424,274)	(4,574,549)
Net Cash Provided By (Used For) Operating Activities	<u>15,800,821</u>	<u>(2,155,294)</u>
Cash Flows From Noncapital Financing Activities		
Other nonoperating income	<u>266,530</u>	-
Net Cash Provided By Noncapital Financing Activities	<u>266,530</u>	-
Cash Flows From Capital and Related Financing Activities		
Proceeds from issuance of bonds	17,874,422	-
Proceeds from issuance of short-term notes	14,310,497	-
Proceeds from intermunicipal agreements	250,804	-
Proceeds from assessments	58,418	-
Proceeds from issuance of refunded bonds	2,944,355	-
Acquisition and construction of capital assets	(20,759,364)	-
Principal payments on bonds	(9,235,571)	-
Principal payments on short-term notes	(11,016,899)	-
Payment to escrow for refunding	(3,255,000)	-
Interest expense	(4,740,204)	-
Capital contributions	<u>1,144,115</u>	-
Net (Used For) Capital and Related Financing Activities	<u>(12,424,427)</u>	-
Cash Flows From Investing Activities		
Investment income	<u>36,042</u>	<u>134,236</u>
Net Cash Provided By Investing Activities	<u>36,042</u>	<u>134,236</u>
Net Change in Cash and Short-Term Investments	3,678,966	(2,021,058)
Cash and Short-Term Investments, Beginning of Year	<u>15,708,414</u>	<u>7,959,025</u>
Cash and Short-Term Investments, End of Year	<u>\$ 19,387,380</u>	<u>\$ 5,937,967</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities		
Operating income (loss)	\$ 4,915,306	\$ (564,462)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	8,405,211	-
Changes in assets/deferred outflows and liabilities/deferred inflows:		
User fees	(31,421)	(50,764)
Deferred outflows - related to pension	(273,839)	-
Warrants payable	1,985,485	(25,559)
Accounts payable	(5,215)	-
Accrued liabilities	(109,379)	(1,514,509)
Other liabilities	285,446	-
Net pension liability	364,387	-
Net OPEB liability	250,948	-
Compensated absences	4,872	-
Deferred inflows - related to pension	9,020	-
Net Cash Provided By (Used For) Operating Activities	<u>\$ 15,800,821</u>	<u>\$ (2,155,294)</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, 2017

	Pension Trust Fund (as of <u>December 31, 2016</u>)	Other Post Employment Benefits Trust Fund	Agency Funds
Assets			
Cash and short-term investments	\$ 2,432,560	\$ 13,813	\$ 7,170,863
Investments	271,581,032	5,309,568	1,077,099
Accounts receivable	<u>53,533</u>	-	<u>7,151</u>
Total Assets	274,067,125	5,323,381	8,255,113
Liabilities and Net Position			
Warrants payable	-	-	55,632
Accounts payable	-	-	333,902
Performance bonds	-	-	3,718,426
Payroll withholdings and other liabilities	<u>18,436</u>	-	<u>4,147,153</u>
Total Liabilities	<u>18,436</u>	-	<u>8,255,113</u>
Total Net Position Restricted For Pension and OPEB Benefits	<u>\$ 274,048,689</u>	<u>\$ 5,323,381</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, 2017

	Pension Trust Fund (for the year ended <u>December 31, 2016</u>)	Other Post Employment Benefits Trust Fund
Additions		
Contributions:		
Employers	\$ 13,686,435	\$ 11,124,352
Plan members	6,393,902	-
Reimbursements from federal grants	69,539	-
Reimbursements from Commonwealth of Massachusetts	209,818	-
Reimbursements from other systems	1,442,303	-
Other	<u>9,860</u>	<u>-</u>
Total contributions	21,811,857	11,124,352
Investment Income:		
Increase in fair value of investments	20,367,559	341,405
Less: management fees	<u>(1,399,266)</u>	<u>-</u>
Net investment income	<u>18,968,293</u>	<u>341,405</u>
Total additions	40,780,150	11,465,757
Deductions		
Benefit payments to plan members and beneficiaries	22,288,086	10,372,642
Reimbursements to other systems	891,997	-
Refunds and transfers of plan member accounts to other systems	1,019,038	-
Administrative expenses	<u>326,587</u>	<u>-</u>
Total deductions	<u>24,525,708</u>	<u>10,372,642</u>
Net increase	16,254,442	1,093,115
Net Position Restricted for Pension and OPEB Benefits		
Beginning of Year	<u>257,794,247</u>	<u>4,230,266</u>
End of Year	<u>\$ 274,048,689</u>	<u>\$ 5,323,381</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 Town is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the Town and applicable component units for which the Town is considered to be financially accountable. In fiscal year 2017, 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 Town 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 Town. 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 Town reports the following major governmental funds:

- The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

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 Town reports the following major proprietary fund:

- The *utility fund* is used to report the Town's water and sewer 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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- 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 *other post-employment benefits trust fund* is used to accumulate resources for health and life insurance benefits for retired 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 2017 tax levy reflected an excess capacity of \$10,903,517.

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.

Capital assets 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 Town'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.

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)	\$ 283,175,958	\$ 281,613,931
Other financing sources/uses (GAAP Basis)	<u>4,640,489</u>	<u>1,546,187</u>
Subtotal (GAAP Basis)	287,816,447	283,160,118
Reverse expenditures of prior year carryforwards	-	(775,222)
Add end-of-year appropriation carryforwards from expenditures	-	1,070,497
To reverse non-budgeted activity:		
State contributions for teachers retirement	(24,275,455)	(24,275,455)
Reclass of indirect costs	3,071,894	3,071,894
Stabilization activity	(840,446)	1,286,944
Capital lease issuance	(1,252,753)	(1,252,753)
Current refunding	(1,741,255)	(1,741,255)
To reverse articles activity	(339,469)	611,200
Other timing differences	<u>4,119</u>	<u>(38,471)</u>
Budgetary Basis	<u>\$ 262,443,082</u>	<u>\$ 261,117,497</u>

D. Excess of Expenditures Over Appropriations

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

Non-appropriated items	\$ (394,362)
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E. Deficit Fund Equity

The following funds had deficits as of June 30, 2017:

Capital Project Funds:		
Roadway Improvements	\$	(2,911,950)
Paving		(1,383,960)
Technology Upgrades		(981,443)
Loring Arena Renovations		(916,780)
Roadway Improvements FY16		(747,150)
Farley School		(411,089)
Roadway Improvements FY15		(304,917)
Fire Station		(246,478)
Drainage		(241,068)
Police		(224,717)
Cruiser		(220,510)
Heat Vent		(193,101)
King Asbe		(192,568)
HVAC Replace FY15		(177,585)
Sidewalk		(155,489)
Cypress St		(107,392)
F550		(100,473)
Other (58 individual projects)		(1,919,397)
Special Revenue Funds:		
Bulletproof Vest Partnership Program		(4,595)
Emergency Management		(21,223)
West Metro HOME Consortium		(2,694)
Department of Housing Community Service		(42,950)
Ex-Office Public Safety Police		(52,378)
Chapter 90 Highway		(3,904)
US SPED		(15,444)
Partnership for Skilled Workforce		(81)
Resiliency for Life		<u>(326)</u>
Total	\$	<u>(11,579,662)</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 Town'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, 2017 and December 31, 2016, \$2,995,369 and \$2,002,036 of the Town's and System's bank balances of \$124,609,849 and \$2,462,139, respectively, was exposed to custodial credit risk as uninsured or uncollateralized.

All of the System's balance exposed to custodial credit risk represents the cash portion on deposit with the Pension Reserve Investment 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 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):

Average Rating	US Treasury Notes	Federal Agency Securities	Corporate Bonds	Fixed Income Mutual Funds	Equity Mutual Funds	Corporate Equities	Certificate of Deposits	Total
AAA	\$ 1,479,407	\$ 4,694,081	\$ -	\$ 680,035	\$ -	\$ -	\$ -	\$ 6,853,523
AA+	-	-	-	26,724	-	-	-	26,724
AA-	-	-	-	298,534	-	-	-	298,534
A+	-	-	981,459	25,650	-	-	-	1,007,109
A	-	-	-	26,334	-	-	-	26,334
A-	-	-	-	492,077	-	-	-	492,077
BBB+	-	-	671,398	52,741	-	-	-	724,139
BBB	-	-	255,115	528,371	-	-	-	783,486
BBB-	-	-	409,028	-	-	-	-	409,028
BB+	-	-	-	253,109	-	-	-	253,109
BB-	-	-	-	258,106	-	-	-	258,106
B-	-	-	-	180,830	-	-	-	180,830
Exempt From Disclosure	-	-	-	-	\$ 4,541,067	\$ 7,562,678	\$ 9,158,775	\$ 21,262,520
Total	\$ 1,479,407	\$ 4,694,081	\$ 2,317,000	\$ 2,822,511	\$ 4,541,067	\$ 7,562,678	\$ 9,158,775	\$ 32,575,519

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, 2016, the Contributory Retirement System maintained its investments in the State Investment Pool* with a fair value of \$271,581,032. 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 \$4,694,081 held in Federal Home Loan Mortgage 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:

Investment Type	Fair Value	Investment Maturities			
		Less Than 1	1-5	6-10	10+
Debt-related Securities:					
US Treasury notes	\$ 1,479,407	\$ -	\$ 1,479,407	\$ -	\$ -
Federal agency securities	4,694,081	-	4,694,081	-	-
Corporate bonds	2,317,000	584,990	1,732,010	-	-
Fixed income mutual funds	<u>2,822,511</u>	<u>-</u>	<u>1,017,180</u>	<u>1,646,052</u>	<u>159,279</u>
Total	<u>\$ 11,312,999</u>	<u>\$ 584,990</u>	<u>\$ 8,922,678</u>	<u>\$ 1,646,052</u>	<u>\$ 159,279</u>

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.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town and System have the following fair value measurements as of June 30, 2017:

<u>Description</u>	Fair Value Measurements Using:			
	Quoted prices in active markets for identical assets <u>(Level 1)</u>	Significant observable inputs <u>(Level 2)</u>	Significant unobservable inputs <u>(Level 3)</u>	
Investments by fair value level:				
Debt securities:				
U.S. Treasury notes	\$ 1,479,407	\$ -	\$ 1,479,407	\$ -
U.S. Federal agencies	4,694,081	-	4,694,081	-
Corporate bonds	2,317,000	-	2,317,000	-
Equity securities:				
Fixed income mutual funds	2,822,511	2,822,511	-	-
Equity mutual funds	4,541,067	4,541,067	-	-
Corporate equities:				
Utilities	574,103	574,103	-	-
Basic Materials	170,697	170,697	-	-
Financials	1,282,369	1,282,369	-	-
Industrials	908,927	908,927	-	-
Healthcare	1,875,115	1,875,115	-	-
Services	618,473	618,473	-	-
Technology	251,627	251,627	-	-
Consumer Goods	1,881,365	1,881,365	-	-
Investments measured at the net asset value (NAV):				
External investment pool	271,581,032	-	-	-
Total	\$ 294,997,774	\$ 14,926,254	\$ 8,490,488	\$ -
<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 271,581,032	\$ -	Monthly	30 days

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, 2017 consist of the following:

<u>Receivables:</u>	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Real estate taxes	\$ 1,582,824	\$ (166,293)	\$ 1,416,531
Personal property taxes	479,720	(409,470)	70,250
Tax liens	1,979,057	(712,461)	1,266,596
Deferred taxes	575,025	(172,507)	402,518
Total property taxes	4,616,626	(1,460,731)	3,155,895
Motor vehicle excise	3,123,508	(1,950,642)	1,172,866
Total excises	3,123,508	(1,950,642)	1,172,866
Grand total	\$ 7,740,134	\$ (3,411,373)	\$ 4,328,761

6. User Fee Receivables

The Town provides water and sewer services for its residents. Bills are issued based on usage and are sent out either monthly or quarterly.

Receivables for user charges at June 30, 2017 consist of the following:

<u>Receivables:</u>	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Water	\$ 6,303,534	\$ (54,452)	\$ 6,249,082
Sewer	9,047,144	(52,158)	8,994,986
Total	\$ 15,350,678	\$ (106,610)	\$ 15,244,068

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017, 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 fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2017:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
<u>Governmental Funds:</u>			
General Fund	\$ 1,646,481	\$ 240,328	\$ 1,406,153
Nonmajor Governmental Funds:			
Insurance proceeds			
greater than \$20,000	-	1,136,268	(1,136,268)
Other	<u>240,328</u>	<u>510,213</u>	<u>(269,885)</u>
Total	<u>\$ 1,886,809</u>	<u>\$ 1,886,809</u>	<u>\$ -</u>

Of the \$1,136,268 transferred from insurance proceeds greater than \$20,000, \$601,177 and \$335,091 represent reimbursements to the General Fund for damages to the McCarthy School and Main Library and the High School parking lot project, respectively.

9. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 209,019,825	\$ 5,414,537	\$ -	\$ 214,434,362
Vehicles, machinery, equipment and furnishings	60,204,440	5,820,167	(1,189,433)	64,835,174
Infrastructure	<u>75,012,410</u>	<u>11,143,917</u>	<u>-</u>	<u>86,156,327</u>
Total capital assets, being depreciated	344,236,675	22,378,621	(1,189,433)	365,425,863
Less accumulated depreciation for:				
Buildings and improvements	(91,218,608)	(6,412,842)	-	(97,631,450)
Vehicles, machinery, equipment and furnishings	(37,459,619)	(5,573,228)	1,123,934	(41,908,913)
Infrastructure	<u>(30,276,515)</u>	<u>(4,334,506)</u>	<u>-</u>	<u>(34,611,021)</u>
Total accumulated depreciation	<u>(158,954,742)</u>	<u>(16,320,576)</u>	<u>1,123,934</u>	<u>(174,151,384)</u>
Total capital assets, being depreciated, net	185,281,933	6,058,045	(65,499)	191,274,479
Capital assets, not being depreciated:				
Land	20,032,103	-	-	20,032,103
Construction in progress	<u>5,520,541</u>	<u>-</u>	<u>-</u>	<u>5,520,541</u>
Total capital assets, not being depreciated	<u>25,552,644</u>	<u>-</u>	<u>-</u>	<u>25,552,644</u>
Governmental activities capital assets, net	<u>\$ 210,834,577</u>	<u>\$ 6,058,045</u>	<u>\$ (65,499)</u>	<u>\$ 216,827,123</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 42,053,624	\$ 4,134,036	\$ -	\$ 46,187,660
Vehicles, machinery, equipment and furnishings	11,787,389	1,328,787	(512,586)	12,603,590
Infrastructure	<u>229,992,804</u>	<u>14,887,149</u>	<u>-</u>	<u>244,879,953</u>
Total capital assets, being depreciated	283,833,817	20,349,972	(512,586)	303,671,203
Less accumulated depreciation for:				
Capital assets, being depreciated:				
Buildings and improvements	(9,178,339)	(2,227,736)	-	(11,406,075)
Vehicles, machinery, equipment and furnishings	(7,359,669)	(818,554)	500,242	(7,677,981)
Infrastructure	<u>(70,541,398)</u>	<u>(5,358,921)</u>	<u>-</u>	<u>(75,900,319)</u>
Total accumulated depreciation	<u>(87,079,406)</u>	<u>(8,405,211)</u>	<u>500,242</u>	<u>(94,984,375)</u>
Total capital assets, being depreciated, net	196,754,411	11,944,761	(12,344)	208,686,828
Capital assets, not being depreciated:				
Land	1,136,233	-	-	1,136,233
Construction in progress	<u>11,912,726</u>	<u>409,392</u>	<u>-</u>	<u>12,322,118</u>
Total capital assets, not being depreciated	<u>13,048,959</u>	<u>409,392</u>	<u>-</u>	<u>13,458,351</u>
Business-type activities capital assets, net	<u>\$ 209,803,370</u>	<u>\$ 12,354,153</u>	<u>\$ (12,344)</u>	<u>\$ 222,145,179</u>

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

Governmental Activities:

General government	\$ 1,616,283
Public safety	1,414,987
Education	5,816,484
Public works	6,223,931
Health and human services	131,202
Culture and recreation	<u>1,117,689</u>
Total depreciation expense - governmental activities	<u>\$ 16,320,576</u>

Business-Type Activities:

Utility	\$ 8,405,211
Total depreciation expense - business-type activities	<u>\$ 8,405,211</u>

10. Deferred Outflows of Resources

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

Deferred outflows of resources related to pensions, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, are more fully discussed in Note 20.

Other deferred outflows of resources in governmental activities of \$175,400 resulted in losses from debt refundings.

11. Warrants and Accounts Payable

Warrants payable represent 2017 expenditures paid by July 15, 2017. Accounts payable represent additional 2017 expenditures paid after July 15, 2017.

12. Accrued Payroll

This balance represents 2017 wage related expenditures due to employees paid after July 15, 2017.

13. 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.

14. Notes Payable

The Town had the following notes outstanding at June 30, 2017:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/17</u>
Bond anticipation	2.00%	12/09/16	12/08/17	\$ 3,019,766
Bond anticipation	1.75%	06/22/17	12/08/17	<u>20,547,185</u>
Total				\$ <u>23,566,951</u>

The following summarizes activity in notes payable during fiscal year 2017:

	Balance <u>Beginning of Year</u>	New <u>Issues</u>	Maturities	Balance <u>End of Year</u>
<u>Governmental Activities</u>				
Bond anticipation	\$ 5,202,473	\$ -	\$ (5,202,473)	\$ -
Bond anticipation	-	66,696	-	66,696
Bond anticipation	<u>-</u>	<u>9,189,758</u>	<u>-</u>	<u>9,189,758</u>
Subtotal	5,202,473	9,256,454	(5,202,473)	9,256,454
<u>Business-Type Activities</u>				
Bond anticipation	11,016,899	-	(11,016,899)	-
Bond anticipation	-	2,953,070	-	2,953,070
Bond anticipation	<u>-</u>	<u>11,357,427</u>	<u>-</u>	<u>11,357,427</u>
Subtotal	<u>11,016,899</u>	<u>14,310,497</u>	<u>(11,016,899)</u>	<u>14,310,497</u>
Total	<u>\$ 16,219,372</u>	<u>\$ 23,566,951</u>	<u>\$ (16,219,372)</u>	<u>\$ 23,566,951</u>

15. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/17</u>
General obligation	03/25	3.79%	\$ 1,094,600
General obligation	03/24	3.79%	439,150
General obligation	03/24	3.79%	502,050
General obligation	02/19	4.34%	1,913,500
General obligation	03/23	3.00%	52,600
General obligation	11/23	0.00%	175,000
General obligation	03/20	5.51%	2,507,500
General obligation	03/24	3.00%	352,200
General obligation	11/27	3.84%	255,000
General obligation	07/27	2.00%	178,623
General obligation	06/24	3.00%	2,380,000
General obligation	06/30	3.00%	2,317,000
General obligation	07/30	2.00%	228,287
General obligation	06/31	3.63%	7,725,000
General obligation	12/32	3.45%	3,820,000
General obligation	12/38	3.24%	7,130,000
General obligation	12/35	3.84%	5,781,000
General obligation	12/40	3.87%	16,925,000
General obligation	12/37	3.13%	<u>10,728,765</u>
Total Governmental Activities			\$ <u>64,505,275</u>

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/17</u>
<u>Business-Type Activities:</u>			
Water (MWRA)	03/23	3.00%	\$ 101,200
Sewer	03/25	3.79%	219,900
Water	03/24	3.00%	1,115,400
Sewer (MWPAT)	03/24	0.00%	133,346
Water	03/25	3.79%	512,900
Sewer	11/27	3.84%	145,000
Water	11/27	3.84%	25,000
Sewer	07/27	2.00%	5,500,096
Sewer (MWPAT)	07/28	2.00%	284,151
Sewer (MWPAT)	07/28	2.00%	1,384,743
Water	06/24	3.00%	40,000
Sewer	06/30	3.00%	138,000
Water	06/30	3.00%	4,015,000
Sewer (MWPAT)	07/30	2.00%	1,120,120
Sewer (MWPAT)	07/27	2.00%	85,472
Sewer (MWPAT)	07/30	2.00%	138,924
Sewer (MWPAT)	07/30	2.00%	2,425,252
Sewer (MWPAT)	07/30	2.00%	2,778,712
Sewer (MWPAT)	07/30	2.00%	6,260,844
Sewer (MWPAT)	07/30	2.00%	230,056
Water	06/31	3.63%	4,815,000
Sewer	06/31	3.63%	4,545,000
Sewer (MWPAT)	07/28	2.00%	5,052
Sewer (MWPAT)	07/32	2.00%	19,805,465
Water (MWRA)	11/22	0.00%	3,422,664
Water	12/32	3.45%	14,860,000
Sewer	12/32	3.45%	2,045,000
Sewer (MWPAT)	07/30	2.00%	1,254,854
Water	12/38	3.24%	3,465,000
Sewer	12/38	3.24%	5,785,000
Sewer (MWPAT)	12/38	3.24%	272,646
Water	12/40	3.84%	1,270,000
Water	01/25	0.00%	1,177,120
Sewer	12/40	3.84%	11,079,000
Sewer (MWPAT)	01/35	2.00%	5,531,658
Sewer	5/20	0.00%	287,645
Water	12/40	3.87%	8,225,000
Sewer	12/40	3.87%	14,180,000
Sewer (MWPAT)	1/36	2.00%	2,029,050
Sewer (MWPAT)	1/30	2.00%	78,980
Sewer	1/37	3.13%	9,145,177
Sewer (MWPAT)	11/21	0.00%	759,693
Water	1/37	3.13%	8,831,057
Water (MWRA)	11/21	0.00%	<u>1,471,400</u>
Total Business-Type Activities			\$ <u>150,995,577</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 10,873,114	\$ 2,359,486	\$ 13,232,600
2019	9,314,862	1,953,851	11,268,713
2020	7,804,792	1,588,550	9,393,342
2021	5,514,230	1,305,536	6,819,766
2022	4,659,509	1,088,319	5,747,828
2023 - 2027	17,371,255	2,985,703	20,356,958
2028 - 2032	7,362,513	1,941,985	9,304,498
2033 - 2037	1,565,000	99,585	1,664,585
2038 - 2041	40,000	2,694	42,694
Total	<u>\$ 64,505,275</u>	<u>\$ 13,325,709</u>	<u>\$ 77,830,984</u>

The general fund has been designated as the source to repay the governmental-type general obligation debt outstanding as of June 30, 2017.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 11,326,155	\$ 4,337,649	\$ 15,663,804
2019	10,862,313	4,003,046	14,865,359
2020	10,640,567	3,651,658	14,292,225
2021	10,353,735	3,339,132	13,692,867
2022	9,903,276	3,033,910	12,937,186
2023 - 2027	43,530,571	11,077,723	54,608,294
2028 - 2032	34,671,387	5,532,266	40,203,653
2033 - 2037	14,637,573	1,889,507	16,527,080
2038 - 2041	<u>5,070,000</u>	<u>302,623</u>	<u>5,372,623</u>
Total	<u>\$ 150,995,577</u>	<u>\$ 37,167,514</u>	<u>\$ 188,163,091</u>

C. Advance and Current Refundings

Current Year

On December 8, 2016, the Town issued general obligation bonds in the amount of \$28,705,000 with interest rates ranging from 2.00% to 4.00%. Bonds with a par amount of \$24,533,000 were issued to fund new capital projects. Bonds with a par amount of \$1,640,010 were issued to current refunding \$1,950,000 of June 1, 2006 bonds with interest rates ranging from 4.00% to 4.25% and bonds with a par amount of \$2,531,990 were issued to advance refund \$2,625,000 of November 1, 2007 bonds with interest rates ranging from 4.00% to 4.125%. The bonds being current

refunded mature on June 1, 2017 through June 1, 2022, June 1, 2024, and June 1, 2026 and are callable on January 15, 2017; the bonds being advance refunded mature on November 1, 2018 through November 1, 2027 and are callable on November 1, 2017. The general obligation bonds were issued at 2.983012% true interest cost and, after paying prorate issuance costs of \$32,030 associated with the refunded bonds component, the net refunding bonds proceeds were \$4,455,604. The net refunding bonds proceeds from the issuance of the general obligation bonds along with a cash contribution of \$216,491 were used to purchase State and Local Government Series (SLGS) securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called on January 15, 2017 and November 1, 2017. The current and advance refundings met the requirement of an in-substance debt defeasance and the bonds were removed from the Town's financial statements.

As a result of the current refunding, the Town reduced its total debt service cash flow requirements by \$188,243, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$131,490.

As a result of the advance refunding, the Town reduced its total debt service cash flow requirements by \$142,954, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$122,544.

Total defeased principal still outstanding at June 30, 2017 is \$2,625,000.

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2017 are as follows:

<u>Purpose</u>	<u>Amount</u>
188 Concord St	\$ 1,750,000
Birch Road	37,969,148
N Concord St Water Main Replacement	3,830,583
Grant & Pond St Sewer Replace	1,168,995
Warren Rd & Prindiville Water Main	2,989,476
Worcester Rd Pump Station Elimination Project Construction	15,220,000
Baiting Brook Sewer Improvements	5,803,579
Union Ave Water Mains	9,868,479
Loring Arena Renovation	5,213,760
Evergreen St Water Design	3,160,000
Speen & Cochituate Water	1,897,535
Railway Sewer Alignment	9,660,000
Speen Street Area Design	1,410,000
Platform #1	1,203,715
FY17 Sewer Evaluation Survey	1,563,201
Indian Water Tank	9,476,128
Fuller Feasibility Study	1,000,000
Village Hall Design & Construction	2,450,000
Roadway 2018	5,293,033
Intersection Edgell/Water/Edmands	3,050,000
Interchange #12 Sewer Improvements	2,234,000
Eastleigh/Little Farms/Shawmut/Pump Station	6,135,000
Fountain St (Winter-CSX) #1A	1,540,000
Other (201 individual projects)	32,890,352
Total	\$ 166,776,984

E. 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>	Town's <u>Estimated Share</u>	
MWRA - Water	\$ 2,084,311	3.64%	\$ 75,869
MWRA - Sewer	\$ 3,690,804	2.88%	106,295
MBTA and MWRTA	\$ 5,656,191	0.27%	15,272
Total overlapping debt			\$ 197,436

F. 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, 2017:

Revised equalized valuation - FY2016	\$ <u>8,435,546,100</u>
Debt limit - 5% of equalized valuation	\$ <u>421,777,305</u>
Total debt principal outstanding	<u>215,500,852</u>
Less: debt exempt from limit	<u>(104,493,441)</u>
Legal Debt Margin	<u>\$ 310,769,894 *</u>

* Excludes bond anticipation notes and authorized but unissued debt.

G. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/16</u>	Additions	Reductions	Total Balance <u>6/30/17</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/17</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 65,388,457	\$ 10,728,765	\$ (11,611,947)	\$ 64,505,275	\$ (10,873,114)	\$ 53,632,161
Unamortized premiums	<u>3,717,298</u>	<u>997,462</u>	<u>(171,834)</u>	<u>4,542,926</u>	<u>(221,707)</u>	<u>4,321,219</u>
Subtotal bonds payable	69,105,755	11,726,227	(11,783,781)	69,048,201	(11,094,821)	57,953,380
Net pension liability	100,700,437	17,410,612	-	118,111,049	-	118,111,049
Net OPEB liability	295,491,053	12,099,056	-	307,590,109	-	307,590,109
Accrued employee benefits	3,827,422	114,823	-	3,942,245	(2,562,017)	1,380,228
Capital leases	<u>5,965,757</u>	<u>1,252,753</u>	<u>(250,552)</u>	<u>6,967,958</u>	<u>(486,579)</u>	<u>6,481,379</u>
Totals	<u>\$ 475,090,424</u>	<u>\$ 42,603,471</u>	<u>\$ (12,034,333)</u>	<u>\$ 505,659,562</u>	<u>\$ (14,143,417)</u>	<u>\$ 491,516,145</u>

	Total Balance <u>7/1/16</u>	Additions	Reductions	Total Balance <u>6/30/17</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/17</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 143,432,880	\$ 20,053,268	\$ (12,490,571)	\$ 150,995,577	\$ (11,326,155)	\$ 139,669,422
Unamortized premiums	<u>6,385,117</u>	<u>765,509</u>	<u>(332,181)</u>	<u>6,818,445</u>	<u>(370,457)</u>	<u>6,447,988</u>
Subtotal bonds payable	149,817,997	20,818,777	(12,822,752)	157,814,022	(11,696,612)	146,117,410
Net pension liability	2,107,565	364,387	-	2,471,952	-	2,471,952
Net OPEB liability	6,128,817	250,948	-	6,379,765	-	6,379,765
Accrued employee benefits	<u>162,368</u>	<u>4,871</u>	<u>-</u>	<u>167,239</u>	<u>(153,009)</u>	<u>14,230</u>
Totals	<u>\$ 158,216,747</u>	<u>\$ 21,438,983</u>	<u>\$ (12,822,752)</u>	<u>\$ 166,832,978</u>	<u>\$ (11,849,621)</u>	<u>\$ 154,983,357</u>

16. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension will be recognized in pension expense in future years and are more fully described in Note 20.

The following is a summary of deferred inflow of resources balances as of June 30, 2017:

	Entity-wide Basis		Fund Basis		
	Governmental Activities	Business-type Activities	Governmental Funds General Fund	Nonmajor	Proprietary Funds Utility
Unavailable revenues	\$ -	\$ -	\$ 7,431,603	\$ 931,670	\$ -
Gains on refunding bonds	<u>315,422</u>	<u>512,245</u>	<u>-</u>	<u>-</u>	<u>512,245</u>
Total	<u>\$ 315,422</u>	<u>\$ 512,245</u>	<u>\$ 7,431,603</u>	<u>\$ 931,670</u>	<u>\$ 512,245</u>

Unavailable revenues are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

Gains on refunding bonds are reported in the government-wide and proprietary statements of net position in connection with the unamortized amount of gains resulting from the refunding of long-term bonds.

17. 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.

18. 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, 2017:

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 restricted funds for debt service, 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 and various capital project 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, and fund balance set aside to be used in the subsequent year's budget.

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, 2017:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable			
Prepaid expenditures	\$ 34,359	\$ -	\$ 34,359
Petty cash	550	-	550
Nonexpendable permanent funds	<u>-</u>	<u>523,192</u>	<u>523,192</u>
Total Nonspendable	34,909	523,192	558,101
Restricted			
Debt service	45,313	-	45,313
Bonded projects:			
Bowditch master plan	-	875,692	875,692
Other projects	-	971,358	971,358
Special revenue funds:			
MA Dept of Energy resources	-	105,842	105,842
Framingham State College	-	250,000	250,000
State special ed reimb. fund	-	1,809,174	1,809,174
Sale of real estate	-	349,196	349,196
Government access cable television	-	1,690,116	1,690,116
School food service	-	1,080,102	1,080,102
Civic use - television	-	357,422	357,422
Tuition - blocks	-	847,373	847,373
Other special revenue funds	-	3,921,538	3,921,538
Expendable permanent funds:			
Edgell Grove Cemetery trust	-	1,079,814	1,079,814
Scott trust fund	-	382,892	382,892
Other expendable permanent funds	<u>-</u>	<u>829,610</u>	<u>829,610</u>
Total Restricted	45,313	14,550,129	14,595,442
Committed			
Articles	109,574	-	109,574
Stabilization funds	6,240,004	-	6,240,004
Capital project funds	<u>404,500</u>	<u>196,457</u>	<u>600,957</u>
Total Committed	6,754,078	196,457	6,950,535
Assigned			
Encumbered for:			
General government	185,565	-	185,565
Public safety	245,279	-	245,279
Public works	177,345	-	177,345
Employee benefits	452,380	-	452,380
Articles	485,526	-	485,526
Other	308,365	-	308,365
For next year's expenditures	<u>10,444,113</u>	<u>-</u>	<u>10,444,113</u>
Total Assigned	12,298,573	-	12,298,573
Unassigned ⁽¹⁾	<u>32,318,106</u>	<u>(11,579,662)</u>	<u>20,738,444</u>
Total Unassigned	<u>32,318,106</u>	<u>(11,579,662)</u>	<u>20,738,444</u>
Total Fund Balance	\$ 51,450,979	\$ 3,690,116	\$ 55,141,095

⁽¹⁾ Includes General Stabilization fund balance of \$14,963,130.

19. 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	\$ 32,318,106
Less: General Stabilization	(14,963,130)
Tax refund estimate	<u>5,078,494</u>
Statutory (UMAS) Balance	\$ <u>22,433,470</u>

20. 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 January 1, 2016 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	808
Terminated plan members entitled to but not yet receiving benefits	293
Active plan members	<u>1,191</u>
Total	<u><u>2,292</u></u>
Number of participating employers	3

Participant Retirement Benefits

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 annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, 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%, 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. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have

no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants 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 on 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%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

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, 2017 was \$12,941,893, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended June 30, 2017 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 December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.45%. 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.

C. Net Pension Liability of Participating Employers

The net pension liability is based on an actuarial valuation dated January 1, 2016 and rolled forward to December 31, 2016.

The components of the net pension liability of the participating employers at June 30, 2017 were as follows (in thousands):

Net Pension Liability of Employers

Total pension liability	\$ 401,569
Plan fiduciary net position	<u>(274,049)</u>
Employers' net pension liability	\$ <u>127,520</u>
Plan fiduciary net position as a percentage of total pension liability	68.2%

D. Actuarial Assumptions

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

Valuation Date	January 1, 2016 rolled forward to December 31, 2016
Actuarial cost method	Entry Age Normal Cost Method
Actuarial assumptions:	
Investment rate of return	7.50%
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.

Mortality rates were based on the following:

- Pre-retirement mortality reflects RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- Post-retirement mortality reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- For disabled members, the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).

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:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Domestic equity	18.00%	7.63%
International equity	22.00%	8.72%
Fixed Income	19.00%	5.07%
Private equity	10.00%	9.50%
Real estate	10.00%	6.50%
Timber/Natural Resources	4.00%	6.00%
Private Debt	4.00%	9.06%
Hedge Funds and Portfolio Completion Strategies	<u>13.00%</u>	6.50%
Total	<u><u>100.00%</u></u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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.

F. 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 7.50%, 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 one percentage-point lower (6.50%) or one percentage-point higher (8.50%) than the current rate (in thousands):

Fiscal Year Ended	Current		
	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
June 30, 2017	\$ 163,422	\$ 120,583	\$ 84,249

G. Pension Plan Fiduciary Net Position

At June 30, 2017, the Town reported a liability of \$120,583,001 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. 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, 2015, the Town's proportion was 95.19%. At the most recent measurement date of December 31, 2016, the Town's proportion was 94.56%, which was a decrease of 0.63% from its previous year proportion.

For the year ended June 30, 2017, the Town recognized pension expense of \$17,962,000. In addition, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,335,000	\$ -
Changes of assumptions	13,492,000	-
Net difference between projected and actual earnings on pension plan investments	10,949,001	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>47,000</u>	<u>488,000</u>
Total	<u><u>\$ 27,823,001</u></u>	<u><u>\$ 488,000</u></u>

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

Year ended June 30:	Net Deferred Outflows (Inflows) of Resources
2018	\$ 7,234,000
2019	7,234,000
2020	7,124,000
2021	3,612,000
2022	<u>2,131,001</u>
Total	<u><u>\$ 27,335,001</u></u>

21. 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, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.00% to 7.50% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected with Scale BB and a base year of 2014 set forward 4 years.

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, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	<u>4.0%</u>	5.4%
Total	<u><u>100.0%</u></u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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):

Fiscal Year Ended	1% Decrease to 6.50%	Current Discount Rate 7.50%	1% Increase to 8.50%
June 30, 2016	\$ 27,464,000	\$ 22,357,928	\$ 18,022,000

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 2017 (the most recent measurement period), the Town's proportionate share of the MTRS' collective net pension liability and pension expense was \$237,979,362 and \$24,275,455, respectively, based on a proportionate share of 1.064407%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

22. Other Post-Employment Benefits – OPEB (GASB 74/75)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These statements establish standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. These statements identify the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB also are addressed.

A. General Information about the OPEB Plan

Plan description. The Town provides healthcare for retired employees through its single-employer defined benefit Other Post-Employment Benefit (OPEB) plan. Chapter 32B of the Massachusetts General Laws (MGL) establishes the benefits, benefit levels, employee contributions and employer contributions requirements. The OPEB plan is administered through a trust, established in April 2012, that meets the criteria in paragraph 4 of GASB Statement No. 75. The OPEB plan does not issue a stand-alone financial report.

Benefits provided. Retirees and their covered dependents are eligible to participate in the Town's medical, dental, and life insurance programs. Generally, an employee who retires after the earlier of (a) age 55 with at least 10 years of service or (b) 20 years of service meet the eligibility criteria and will receive these benefits.

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,343
Active employees	<u>1,660</u>
Total	<u><u>3,003</u></u>

Contributions. Retirees contribute between 16% and 22.5% toward medical coverage and 85% toward dental coverage, for both individual and dependent coverage. The Town will pay 75% toward \$5,000 life insurance coverage. The Town contributes the remainder of the OPEB plan costs on a pay-as-you-go basis, however, the Town has adopted a policy to fund the OPEB trust with approximately 20% of free cash available after accounting for stabilization funding.

B. Net OPEB Liability

The Town's net OPEB liability of \$313,969,874 was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016. Changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Plan		
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balances at June 30, 2016	\$ 305,850,135	\$ 4,230,266	\$ 301,619,869
Changes for the year:			
Service cost	11,789,210	-	11,789,210
Interest	12,026,552	-	12,026,552
Contributions - employer	-	11,124,352	(11,124,352)
Net investment income	-	341,405	(341,405)
Benefit payments	(10,372,642)	(10,372,642)	-
Net changes	13,443,120	1,093,115	12,350,005
Balances at June 30, 2017	\$ 319,293,255	\$ 5,323,381	\$ 313,969,874

C. Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary increases	3.00%, average, including inflation
Investment rate of return	4.00%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	8.00% for year 1, decreasing 0.5% percentage points per year to an ultimate rate of 5.00% after year 7

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the period July 1, 2014 – June 30, 2016.

The Town does not have an investment policy detailing the assumed asset allocation on the OPEB plan's portfolio along with the long-term expected real rate of return for each major asset class.

Discount rate. The discount rate used to measure the total OPEB liability was 4.00%. The projection of cash flows used to determine the discount rate assumed that Town contributions will be made at current contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit pay-

ments of current plan members. Therefore, the expected rate of return on OPEB plan investments was based on the S&P Municipal Bond 20-year High Grade Rate Index and was applied to all periods of projected benefit payments to determine the total OPEB liability.

D. Sensitivity of the Net OPEB Liability

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.00%) or 1-percentage-point higher (5.00%) than the current discount rate:

1% Decrease (3.00%)	Discount Rate (4.00%)	1% Increase (5.00%)
\$ 381,444,636	\$ 313,969,874	\$ 260,344,746

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.50% decreasing to 4.00%) or 1-percentage-point higher (9.50% decreasing to 6.00%) than the current healthcare cost trend rates:

Healthcare Cost		
1% Decrease (7.50% decreasing to 4.00%)	Trend Rates (8.50% decreasing to 5.00%)	1% Increase (9.50% decreasing to 6.00%)
\$ 253,769,735	\$ 313,969,874	\$ 387,243,793

E. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2017, the Town recognized an OPEB expense of \$23,815,762. At June 30, 2017, the Town did not report deferred outflows of resources and deferred inflows of resources related to OPEB.

23. Self-insurance

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

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for claims up to \$150,000 per incident, with a maximum lifetime coverage of \$2,000,000. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2017 are as follows:

	<u>Dental Coverage</u>
Claims liability, beginning of year	\$ 6,884,325
Claims incurred/recognized in fiscal year 2017	3,034,481
Claims paid in fiscal year 2017	<u>(4,548,990)</u>
Claims liability, end of year	<u>\$ 5,369,816</u>

The \$5,369,816 estimated liability for claims incurred but not reported includes only an estimate for known loss events expected to later be presented as claims. The Town is unable to estimate the amount of unknown loss events expected to become claims and expected future developments on claims already reported.

24. Subsequent Events

Debt

Subsequent to June 30, 2017, 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 bonds	\$ 36,186,000	3.00-5.00%	12/07/17	12/01/37

The use of the general obligation bonds was to provide long term funding for numerous Town, School, and Utility capital projects.

Change in Government

On April 4, 2017, Framingham voters approved a ballot question to change the Town's charter to a City form of government.

On November 7, 2017, the Framingham voters elected Yvonne M. Spicer as its first ever mayor, as well as an 11-member city council (2 at-large and 9 district councilors) and a 9-member school committee. The new leaders began serving on January 1, 2018.

Per the newly adopted charter, all Town officers and employees shall continue to perform their duties in the same manner and to the same extent as they have performed the same prior to the ratification by the voter of the home rule charter, but, being cognizant that on the first business day of January 2018, the executive authority will thereafter be vested in a mayor and the legislative powers shall be vested in a city council. All town officers and employees shall make every effort to provide a smooth and orderly transition from the pre-existing form of government to the new form of government.

25. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of these issues 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.

26. 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.

27. Beginning Net Position Restatement

The beginning (July 1, 2016) 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	\$ 3,632,618	\$ 72,778,898
Implement GASB 75	<u>(185,266,491)</u>	<u>(2,336,847)</u>
As restated	<u>\$ (181,633,873)</u>	<u>\$ 70,442,051</u>

Utility Fund

As previously reported	\$ 72,778,898
Implement GASB 75	<u>(2,336,847)</u>
As restated	<u>\$ 70,442,051</u>

TOWN OF FRAMINGHAM, MASSACHUSETTS

SCHEDULE OF PROPORTIONATE SHARE

OF THE NET PENSION LIABILITY (GASB 68)

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017

(Unaudited)

Framingham Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	December 31, 2016	94.56%	\$120,583,001	\$ 60,584,138	199.03%	68.24%
June 30, 2016	December 31, 2015	95.19%	\$102,808,000	\$ 55,714,767	184.53%	70.47%
June 30, 2015	December 31, 2014	95.11%	\$88,609,000	\$ 55,714,767	159.04%	73.55%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2017	June 30, 2016	1.064407%	\$ -	\$ 237,979,362	\$ 237,979,362	\$ 70,013,020	- 52.73%
June 30, 2016	June 30, 2015	1.047958%	\$ -	\$ 214,722,934	\$ 214,722,934	\$ 66,428,884	- 55.38%
June 30, 2015	June 30, 2014	1.031853%	\$ -	\$ 164,027,046	\$ 164,027,046	\$ 63,322,829	- 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 PENSION CONTRIBUTIONS (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017
(Unaudited)

Framingham Retirement System

Fiscal Year	Contributions in Relation to the		Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
	Contractually Required <u>Contribution</u>	Contractually Required <u>Contribution</u>			
June 30, 2017	\$ 12,941,893	\$ 12,941,893	\$ -	\$ 60,584,138	21.36%
June 30, 2016	\$ 12,407,731	\$ 12,407,731	\$ -	\$ 55,714,767	22.27%
June 30, 2015	\$ 11,806,955	\$ 11,806,955	\$ -	\$ 55,714,767	21.19%

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 (GASB 67)

(Unaudited)
(in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability			
Service cost	\$ 9,458	\$ 8,051	\$ 7,704
Interest on unfunded liability - time value of \$	27,295	27,088	26,082
Changes of benefit terms	-	-	-
Differences between expected and actual experience	4,294	-	-
Changes of assumptions	17,370	-	-
Benefit payments, including refunds of member contributions	<u>(22,645)</u>	<u>(21,633)</u>	<u>(20,678)</u>
Net change in total pension liability	35,772	13,506	13,108
Total pension liability - beginning	<u>365,797</u>	<u>352,291</u>	<u>339,183</u>
Total pension liability - ending (a)	\$ 401,569	\$ 365,797	\$ 352,291
 Plan fiduciary net position			
Contributions - employer	\$ 13,756	\$ 13,103	\$ 12,470
Contributions - member	6,492	6,086	5,653
Net investment income	18,969	1,423	18,194
Benefit payments, including refunds of member contributions	<u>(22,645)</u>	<u>(21,633)</u>	<u>(20,678)</u>
Administrative expense	(327)	(327)	(351)
Other	<u>10</u>	<u>15</u>	<u>23</u>
Net change in plan fiduciary net position	16,255	(1,333)	15,311
Plan fiduciary net position - beginning	<u>257,794</u>	<u>259,127</u>	<u>243,816</u>
Plan fiduciary net position - ending (b)	\$ 274,049	\$ 257,794	\$ 259,127
 Net pension liability (asset) - ending (a-b)	\$ 127,520	\$ 108,003	\$ 93,164

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 (GASB 67)

(Unaudited)
(in thousands)

Schedule of Net Pension Liability

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 401,569	\$ 365,797	\$ 352,291
Plan fiduciary net position	<u>(274,049)</u>	<u>(257,794)</u>	<u>(259,127)</u>
Net pension liability (asset)	<u>\$ 127,520</u>	<u>\$ 108,003</u>	<u>\$ 93,164</u>
Plan fiduciary net position as a percentage of the total pension liability	68.2%	70.5%	73.6%
Covered payroll	\$ 64,070	\$ 55,766	\$ 55,766
Participating employer net pension liability (asset) as a percentage of covered payroll	199.0%	193.7%	167.1%

Schedule of Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 13,686	\$ 13,035	\$ 12,414
Contributions in relation to the actuarially determined contribution	<u>13,686</u>	<u>13,035</u>	<u>12,414</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 64,070	\$ 55,766	\$ 55,766
Contributions as a percentage of covered payroll	21.36%	23.37%	22.26%

Schedule of Investment Returns

Year Ended December 31

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	7.45%	0.55%	7.69%

*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
OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Schedule of Changes in the Net OPEB Liability (GASB 74/75)

(Unaudited)

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 11,789,210
Interest on unfunded liability - time value of \$	12,026,552
Benefit payments, including refunds of member contributions	<u>(10,372,642)</u>
Net change in total OPEB liability	13,443,120
Total OPEB liability - beginning	<u>305,850,135</u>
Total OPEB liability - ending (a)	\$ <u>319,293,255</u>
 Plan fiduciary net position	
Contributions - employer	\$ 11,124,352
Net investment income	341,405
Benefit payments, including refunds of member contributions	<u>(10,372,642)</u>
Net change in plan fiduciary net position	1,093,115
Plan fiduciary net position - beginning	<u>4,230,266</u>
Plan fiduciary net position - ending (b)	\$ <u>5,323,381</u>
 Net OPEB liability (asset) - ending (a-b)	\$ <u>313,969,874</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
OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Schedules of Net OPEB Liability, Contributions, and Investment Returns (GASB 74/75)
 (Unaudited)

Schedule of Net OPEB Liability

	<u>2017</u>
Total OPEB liability	\$ 319,293,255
Plan fiduciary net position	<u>5,323,381</u>
Net OPEB liability (asset)	<u>\$ 313,969,874</u>
Plan fiduciary net position as a percentage of the total OPEB liability	1.67%
Covered payroll	\$ 111,000,000
Participating employer net OPEB liability (asset) as a percentage of covered payroll	282.86%

Schedule of Contributions

	<u>2017</u>
Actuarially determined contribution	\$ 23,815,762
Contributions in relation to the actuarially determined contribution	<u>11,537,855</u>
Contribution deficiency (excess)	<u>\$ 12,277,907</u>
Covered payroll	\$ 111,000,000
Contributions as a percentage of covered payroll	10.39%

Schedule of Investment Returns

	<u>2017</u>
Annual money weighted rate of return, net of investment expense	3.00%

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

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