

**TOWN OF  
FRAMINGHAM, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Framingham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, Massachusetts, as of and for the year ended June 30, 2008, (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2007) which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Framingham's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Framingham, as of June 30, 2008, (except the Framingham Contributory Retirement System which is as of December 31, 2007), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated May 18, 2009 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Melanson, Heath + Company P.C.*

Andover, Massachusetts  
May 18, 2009

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

As management of the Town of Framingham, we offer readers this narrative overview and analysis of the financial activities of the Town of Framingham for the fiscal year ended June 30, 2008. All amounts in the Management's Discussion and Analysis unless otherwise indicated, are expressed in thousands of dollars.

### **A. FINANCIAL HIGHLIGHTS**

- The assets of the Town of Framingham exceeded its liabilities at the close of the most recent fiscal year by \$ 223,430 (net assets). Of this amount, \$ 51,737 constitutes unrestricted net assets some of which are available for use as of June 30, 2008.
- The government's total net assets changed by \$ (16,036) in the fiscal year.
- As of the close of the current fiscal year, the Town of Framingham's governmental funds reported combined ending fund balances of \$ 13,863, a change of \$ 932 in comparison with the prior year.
- At the end of the current fiscal year, unreserved/undesignated fund balance for the general fund was \$ 2,864 or 1.4% of total general fund expenditures. Management has established an additional \$ 93 as a general fund designated fund balance.
- The Town of Framingham's total debt (bonds and bond anticipation notes) was \$ 85,197, a change of \$ 15,142 during the current year.

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

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town of Framingham's finances in a manner similar to a private-sector business.

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

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

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Framingham, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Framingham can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

The Town of Framingham maintains in excess of 100 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the High School Renovation

fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The Town of Framingham adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The Town of Framingham maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Framingham uses enterprise funds to account for its Water and Sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town of Framingham's various functions. The Town of Framingham uses internal service funds are used to account for self-insured employee health programs. Because this service predominantly benefits governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer operations. Water and Sewer are considered to be major funds of the Town of Framingham.

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Framingham's progress in funding it's obligation to provide pension benefits to its employees.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 81,517	\$ 79,085	\$ 30,130	\$ 26,126	\$ 111,647	\$ 105,211
Capital assets	178,811	178,986	62,114	51,305	240,925	230,291
Total assets	<u>260,328</u>	<u>258,071</u>	<u>92,244</u>	<u>77,431</u>	<u>352,572</u>	<u>335,502</u>
Long-term liabilities outstanding	65,524	51,274	27,319	16,002	92,843	67,276
Other liabilities	31,093	27,520	5,206	1,240	36,299	28,760
Total liabilities	<u>96,617</u>	<u>78,794</u>	<u>32,525</u>	<u>17,242</u>	<u>129,142</u>	<u>96,036</u>
Net assets:						
Invested in capital assets, net of related debt	123,136	125,674	40,341	37,340	163,477	163,014
Restricted	8,216	5,931	-	-	8,216	5,931
Unrestricted	<u>32,359</u>	<u>47,672</u>	<u>19,378</u>	<u>22,849</u>	<u>51,737</u>	<u>70,521</u>
Total net assets	<u>\$ 163,711</u>	<u>\$ 179,277</u>	<u>\$ 59,719</u>	<u>\$ 60,189</u>	<u>\$ 223,430</u>	<u>\$ 239,466</u>

#### **CHANGES IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 12,976	\$ 11,233	\$ 25,947	\$ 29,933	\$ 38,923	\$ 41,166
Operating grants and contributions	57,996	53,108	-	-	57,996	53,108
Capital grants and contributions	2,388	3,215	369	-	2,757	3,215
General revenues:						
Property Taxes	140,201	132,693	-	-	140,201	132,693
Excises	6,971	6,649	-	-	6,971	6,649
Penalties, interest and other taxes	1,713	1,860	-	-	1,713	1,860
Grants and contributions not restricted to specific programs	14,069	15,209	-	-	14,069	15,209
Investment income	1,184	1,940	638	823	1,822	2,763
Miscellaneous	<u>1,749</u>	<u>1,795</u>	<u>-</u>	<u>-</u>	<u>1,749</u>	<u>1,795</u>
<b>Total revenues</b>	<u>239,247</u>	<u>227,702</u>	<u>26,954</u>	<u>30,756</u>	<u>266,201</u>	<u>258,458</u>

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
<b>Expenses:</b>						
General government	12,308	10,164	-	-	12,308	10,164
Public safety	28,979	25,036	-	-	28,979	25,036
Education	135,806	123,034	-	-	135,806	123,034
Public works	16,412	12,581	-	-	16,412	12,581
Human services	1,395	1,223	-	-	1,395	1,223
Culture and recreation	7,177	5,478	-	-	7,177	5,478
Employee benefits	48,924	47,278	-	-	48,924	47,278
Interest	2,401	2,334	-	-	2,401	2,334
Intergovernmental	3,549	3,315	-	-	3,549	3,315
Water	-	-	12,003	12,226	12,003	12,226
Sewer	-	-	13,283	12,322	13,283	12,322
Nonmajor	-	-	-	514	-	514
<b>Total expenses</b>	<u>256,951</u>	<u>230,443</u>	<u>25,286</u>	<u>25,062</u>	<u>282,237</u>	<u>255,505</u>
Increase in net assets before transfers	(17,704)	(2,741)	1,668	5,694	(16,036)	2,953
Transfers	<u>2,138</u>	<u>1,840</u>	<u>(2,138)</u>	<u>(1,840)</u>	<u>-</u>	<u>-</u>
Change in net assets	(15,566)	(901)	(470)	3,854	(16,036)	2,953
Net assets - beginning of year, as restated	<u>179,277</u>	<u>180,178</u>	<u>60,189</u>	<u>56,335</u>	<u>239,466</u>	<u>236,513</u>
Net assets - end of year	<u>\$ 163,711</u>	<u>\$ 179,277</u>	<u>\$ 59,719</u>	<u>\$ 60,189</u>	<u>\$ 223,430</u>	<u>\$ 239,466</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Framingham, assets exceeded liabilities by \$ 223,430 at the close of the most recent fiscal year.

The largest portion of the Town of Framingham's net assets (73.2%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town of Framingham uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Framingham's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Framingham's of net assets (3.7%) represents resources that are subject to external restrictions on how they may be used (e.g., grants and trust funds). The remaining balance of unrestricted net assets is \$ 51,737, which includes amounts that are available for use as of June 30, 2008, and other amounts, though measurable, that will not be available until subsequent periods (e.g., unrestricted fund balances subject to appropriation, taxes and charges billed but not yet collected.)

At the end of the current fiscal year, the Town of Framingham is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Governmental activities.** Governmental activities for the year resulted in a change in net assets of \$ (15,566). Key elements of this change are as follows:

General fund operations	\$ (2,552)
Special revenue fund operations	2,669
General fund transfers from enterprise funds	<u>2,138</u>
Subtotal	2,255
Depreciation in excess of debt service principal paydown	(4,103)
Reimbursement from Massachusetts School Building Authority	184
OPEB liability	(14,008)
Other	<u>106</u>
Total	<u><u>\$ (15,566)</u></u>

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$ (470). Key elements of this change are as follows (in thousands):

Water operations	\$ (575)
Sewer operations	<u>105</u>
Total	<u><u>\$ (470)</u></u>

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

As noted earlier, the Town of Framingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Town of Framingham's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town of Framingham's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$ 13,863, a change of \$ 932 in comparison with the prior year.

A portion of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and

purchase orders of the prior period \$ 5,525 and (2) to be used as a funding source for the subsequent budget \$ 1,445.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$ 2,864 while total fund balance was \$ 5,749. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 1.4% of total general fund expenditures, while total fund balance represents 2.7% of that same amount. Management has established \$ 93 of the general fund balance to pay the debt service on the current notes payable. The following table highlights the change in our General fund balance accounts (in thousands):

	<u>Unreserved</u>	<u>Reserves</u>	<u>Designations</u>	<u>Total</u>
Beginning of year	\$ 2,669	\$ 3,254	\$ 76	\$ 5,999
Use of fund balance	(1,655)	-	(76)	(1,731)
Raising of prior deficits	146	-	-	146
Revenues in excess of budget	395	-	-	395
Expenditures under budget	1,021	-	-	1,021
Other	(81)	-	-	(81)
Transfers	<u>369</u>	<u>(462)</u>	<u>93</u>	<u>-</u>
End of Year	<u>\$ 2,864</u>	<u>\$ 2,792</u>	<u>\$ 93</u>	<u>\$ 5,749</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 19,378. The total change in net assets was \$ (470). Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town of Framingham's business-type activities.

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

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

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 912, due to a change in General Government of \$ 878, Public Safety of \$ 31, Education of \$ (40), Human Services of \$ (22), Culture and Recreation of \$ 25, and Employee Benefits of \$ 40. The additional appropriations were funded by transfers from other funds.

## F. CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets.** The Town of Framingham's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounts to \$ 240,925 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system, improvements, machinery and equipment, park facilities, roads, highways and bridges.

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

<u>CAPITAL ASSETS</u>						
(net of depreciation)						
June 30, 2008 and 2007						
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 18,517	\$ 18,616	\$ 292	\$ 233	\$ 18,809	\$ 18,849
Buildings and improvements	124,383	68,408	2,844	1,709	127,227	70,117
Machinery and equipment	4,712	4,220	942	729	5,654	4,949
Vehicles	5,564	4,953	1,723	1,513	7,287	6,466
Infrastructure	24,674	23,208	43,529	38,492	68,203	61,700
Construction in progress	961	59,581	12,784	8,629	13,745	68,210
	<u>961</u>	<u>59,581</u>	<u>12,784</u>	<u>8,629</u>	<u>13,745</u>	<u>68,210</u>
Total	<u>\$ 178,811</u>	<u>\$ 178,986</u>	<u>\$ 62,114</u>	<u>\$ 51,305</u>	<u>\$ 240,925</u>	<u>\$ 230,291</u>

Significant Capital Asset activity for fiscal year 2008 included:

- Completion of construction of the Framingham High School had been extended to the summer of 2007 due to financial constraints of the general contractor. To meet additional cost needs, in October 2004, the Town appropriated an additional \$ 5,237 for the renovation, addition and equipping of the Framingham High School. This appropriation is in addition to the initial appropriation of \$ 54,000. Total architectural design and construction costs are now estimated at \$ 59,237. This project is being financed through the issuance of debt that was excluded from the limits of Proposition 2 ½ by voter referendum. The project has been approved for 90% reimbursement from the Commonwealth of Massachusetts under the guidelines for school building projects in districts with approved Racial Balance plans. The Massachusetts School Building Authority has instituted a "pay as you build" Progress Payment System which was designed to decrease a municipality's need from having to issue debt to finance the Authority's share of projects costs. Through July, Framingham has received \$ 52,238 in reimbursement which was used to pay-off bond anticipation notes. The Town submitted the final close out information to the Massachusetts School Building Authority in January 2009.
- In October 2003, Town Meeting authorized \$ 1,800 in borrowing to purchase an existing building and convert it into a Senior Center. These funds, com-

bined with an additional \$ 1,800 in donations, were used to purchase land and building in July 2004. The Senior Center was opened the summer of 2005. At the 2005 Annual Town Meeting, the Town authorized an additional \$ 372 for renovations on the second floor which were substantially completed by the summer of 2007. At the 2007 Annual Town Meeting, the Town authorized an additional \$ 468 to develop a 4,336 square foot multi-purpose function room and caterers kitchen. The Contract was awarded in August 2008.

- The Department of Public Works started construction on the three sewer projects appropriated in FY07 after completing design and funding applications in the prior year. Approximately 4,000 feet of sewer lines were installed in Water Street with \$ 4,053 of the \$ 7,295 being expended. Gregory Road, which is part of the Water Street Project, had \$ 496 of the \$ 745 being expended. Of the \$ 3,500 appropriated for Fenwick Pump Station, \$ 2,356 has been expended on reconstruction which started up again in March and should be completed in 2009. The Fenwick Pump Station and Water Street reconstruction received partial funding via a 2% Clean Water State Revolving Fund loan program from the Bureau of Resource Protection of \$ 2,643 and \$ 6,419 in December 2007.
- At the 2007 Annual Town Meeting, the Town authorized over \$ 7,000 in Water Capital Projects and \$ 22,000 in Sewer Capital Projects. Some of the upcoming projects include continuation of the Water Main Replacement program for Cove Avenue and Fay Road for a combined appropriation of \$ 2,017. Contracts were awarded in the fall of 2007, and \$ 709 has been expended on construction which started in the spring of 2008. The Booster Station Replacement at William J. Heights for \$ 765 has not been started. Sewer Main Replacement design at Water Street and Gregory Road, appropriated for \$ 1,592, was awarded in the fall of 2007, and \$ 725 has been expended thus far. Sewer Improvements at Concord and School Street, appropriated for \$ 5,557, has been started. Design for Wastewater Pumping Stations projects, appropriated for \$ 8,009, started in the fall of 2007, and \$ 804 has been expended. East Framingham Sewer Improvement Project Phase 1, appropriated for \$ 2,708, was awarded in the fall of 2007, and \$ 422 has been expended. The Automated Meter Reading program for a combined \$ 2,565 will start during the summer 2008 construction season.
- At the 2005 Annual Town Meeting, the Town appropriated \$ 412 to complete a Master Plan for the reconstruction of the Bowditch Athletic Complex. As a result of the study, at the 2008 Annual Town Meeting, the Town authorized \$ 7,900 to renovate and reconstruct the Bowditch Athletic Complex. The project addresses the need for grandstands, parking, locker rooms, public bathrooms and baseball bleachers as well as a maintenance garage for the Parks Maintenance Operations. The project will be completed in phases over the next few years.

- At the 2008 Annual Town Meeting, the Town authorized over \$ 21,000 in Water Capital Projects and \$ 9,000 in Sewer Capital Projects. Some of the upcoming projects include continuation of the Water Main Replacement program for Grove Street Water Pump Station for \$ 2,870, the Water Street Water Main Construction for \$ 8,522, the Prospect Street Area Water and Sewer Main Replacement for \$ 3,000 and \$ 2,783 respectively, Goodnow Water Storage Tank Rehabilitation for \$ 891,600, the Farm Pond Interceptor Sewer Rehabilitation Project for \$ 1,100, and Cove Area Sewer Main Rehabilitation for \$ 1,753.
- Included in the 2008 Water Capital Projects was an appropriation of an additional \$ 2,830 for the Birch Road Well Reactivation Project. The project proposes to reactivate the Birch Road Wells which are located in the north-east corner of Framingham. The project will provide the Town with an independent and dependable source of drinking water. Since 2004, the Town had previously appropriated \$ 2,700 and expended \$ 1,486 on studies and design on this project.

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

**Long-term debt.** At the end of the current fiscal year, the Town of Framingham had total bonded debt and anticipation notes outstanding of \$ 85,197, all of which was backed by the full faith and credit of the government.

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

<u>OUTSTANDING DEBT</u>						
General Obligation Bonds and Anticipation Notes						
June 30, 2008 and 2007						
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
General obligation bonds	\$ 48,316	\$ 47,928	\$ 27,111	\$ 15,794	\$ 75,427	\$ 63,722
Bond anticipation notes	<u>8,348</u>	<u>6,033</u>	<u>1,422</u>	<u>300</u>	<u>9,770</u>	<u>6,333</u>
Total	<u>\$ 56,664</u>	<u>\$ 53,961</u>	<u>\$ 28,533</u>	<u>\$ 16,094</u>	<u>\$ 85,197</u>	<u>\$ 70,055</u>

**Change in credit rating** The Town of Framingham maintains an "A1" rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town of Framingham is \$ 476,711, which is significantly in excess of the Town of Framingham's outstanding general obligation debt. Additional informa-

tion on the Town of Framingham's long-term debt can be found in the footnotes to the financial statements.

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

- The unadjusted unemployment rate for the Town of Framingham is currently 5.1% (December), which is up slightly from the 4.1% rate from year ago. This compares to the States unemployment rate of 6.9% and the national rate of 7.2%
- Inflationary trends in the region compare favorably to national indices.
- The above factors were considered in preparing the Town of Framingham's budget for the 2009 fiscal year.
- During the current fiscal year, unreserved fund balance in the general fund increased to \$ 2,864. In addition, the Town of Framingham has appropriated \$ 1,247 of "free cash" to finance the FY09 general fund operating budget.
- The \$ 1,870 of "free cash" certified by the Massachusetts Department of Revenue as of July 1, 2008 is available, subject to appropriation, to finance FY09 and FY10 expenditures.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Framingham's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town Accountant  
Town of Framingham  
Memorial Building  
150 Concord Street  
Framingham, Massachusetts 01702

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Net Assets

JUNE 30, 2008

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 32,343,208	\$ 12,434,569	\$ 44,777,777
Investments	8,454,717	-	8,454,717
Receivables, net of allowance for uncollectibles:			
Property taxes	3,167,134	-	3,167,134
Motor vehicle excise	919,960	-	919,960
User fees	267,766	10,146,984	10,414,750
Departmental and other	71,467	-	71,467
Intergovernmental	6,778,443	5,293,057	12,071,500
Assessments	-	171,786	171,786
Other assets	87,824	22,910	110,734
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax title	2,387,281	-	2,387,281
Departmental and other	375,379	-	375,379
Intergovernmental	26,494,575	400,000	26,894,575
Assessments	-	1,546,074	1,546,074
Other assets	168,991	114,548	283,539
Land and construction in progress	19,478,132	13,076,378	32,554,510
Other capital assets, net of accumulated depreciation	<u>159,333,189</u>	<u>49,037,593</u>	<u>208,370,782</u>
<b>TOTAL ASSETS</b>	<b>260,328,066</b>	<b>92,243,899</b>	<b>352,571,965</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	2,872,356	3,179,428	6,051,784
Accounts payable	101,223	212,300	313,523
Accrued liabilities	17,367,925	392,094	17,760,019
Tax refunds payable	2,291,725	-	2,291,725
Notes payable	8,347,929	1,421,900	9,769,829
Other liabilities	111,564	-	111,564
Current portion of long-term liabilities:			
Bonds payable	5,917,388	2,182,640	8,100,028
Compensated absences	2,075,423	106,790	2,182,213
Other liabilities	-	16,208	16,208
Noncurrent:			
Bonds payable	42,398,766	24,928,775	67,327,541
OPEB liability	-	-	-
Compensated absences	15,132,838	3,424	15,136,262
Other liabilities	<u>-</u>	<u>81,039</u>	<u>81,039</u>
<b>TOTAL LIABILITIES</b>	<b>96,617,137</b>	<b>32,524,598</b>	<b>129,141,735</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	123,136,372	40,340,999	163,477,371
Restricted for:			
Grants and other statutory restrictions	5,661,095	-	5,661,095
Permanent funds:			
Nonexpendable	464,790	-	464,790
Expendable	2,090,041	-	2,090,041
Unrestricted	<u>32,358,631</u>	<u>19,378,302</u>	<u>51,736,933</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>163,710,929</u></b>	<b>\$ <u>59,719,301</u></b>	<b>\$ <u>223,430,230</u></b>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 12,308,307	\$ 1,731,822	\$ 946,217	\$ 719,505	\$ (8,910,763)	\$ -	\$ (8,910,763)
Public safety	28,978,507	5,071,166	933,885	-	(22,973,456)	-	(22,973,456)
Education	135,806,052	4,906,454	46,659,984	-	(84,239,614)	-	(84,239,614)
Public works	16,412,144	387,031	14,383	1,440,912	(14,569,818)	-	(14,569,818)
Health and human services	1,395,420	100,192	326,590	-	(968,638)	-	(968,638)
Culture and recreation	7,177,486	779,535	332,158	227,683	(5,838,110)	-	(5,838,110)
Employee benefits	48,923,712	-	8,782,516	-	(40,141,196)	-	(40,141,196)
Interest	2,400,503	-	-	-	(2,400,503)	-	(2,400,503)
Intergovernmental	3,549,205	-	-	-	(3,549,205)	-	(3,549,205)
Total Governmental Activities	256,951,336	12,976,200	57,995,733	2,388,100	(183,591,303)	-	(183,591,303)
<b>Business-Type Activities:</b>							
Water services	12,003,265	12,333,452	-	-	-	330,187	330,187
Sewer services	13,283,210	13,613,585	-	368,752	-	699,127	699,127
Total Business-type Activities	25,286,475	25,947,037	-	368,752	-	1,029,314	1,029,314
Total Primary Government	\$ 282,237,811	\$ 38,923,237	\$ 57,995,733	\$ 2,756,852	(183,591,303)	1,029,314	(182,561,989)
<b>General Revenues and transfers:</b>							
Property taxes					140,200,638	-	140,200,638
Motor vehicle and other excise taxes					6,970,684	-	6,970,684
Penalties and interest on taxes					1,713,435	-	1,713,435
Grants and contributions not restricted to specific programs					14,068,726	-	14,068,726
Investment income					1,184,655	638,546	1,823,201
Miscellaneous					1,748,816	-	1,748,816
Transfers, net					2,138,020	(2,138,020)	-
Total general revenues and transfers					168,024,974	(1,499,474)	166,525,500
Change in Net Assets					(15,566,329)	(470,160)	(16,036,489)
<b>Net Assets:</b>							
Beginning of Year, as restated					179,277,258	60,189,461	239,466,719
End of Year					\$ 163,710,929	\$ 59,719,301	\$ 223,430,230

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Balance Sheet

JUNE 30, 2008

<b>ASSETS</b>	<u>General</u>	<u>High School Renovation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 9,967,542	\$ 380,957	\$ 12,804,477	\$ 23,152,976
Investments	6,731,910	-	1,722,807	8,454,717
Receivables:				
Property taxes	6,995,365	-	-	6,995,365
Motor vehicle excise	2,034,068	-	-	2,034,068
User fees	-	-	267,766	267,766
Departmental and other	29,047	-	417,799	446,846
Intergovernmental	202,772	-	3,913,713	4,116,485
Other assets	<u>54,026</u>	<u>-</u>	<u>-</u>	<u>54,026</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>26,014,730</u></b>	<b>\$ <u>380,957</u></b>	<b>\$ <u>19,126,562</u></b>	<b>\$ <u>45,522,249</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants payable	\$ 1,844,406	\$ 31,723	\$ 995,552	\$ 2,871,681
Accounts payable	38,987	-	62,236	101,223
Accrued liabilities	7,747,028	1,086	770,682	8,518,796
Tax refunds payable	2,291,725	-	-	2,291,725
Deferred revenues	8,232,465	-	1,183,706	9,416,171
Other liabilities	111,549	-	16	111,565
Notes payable	<u>-</u>	<u>3,361,172</u>	<u>4,986,757</u>	<u>8,347,929</u>
<b>TOTAL LIABILITIES</b>	<b>20,266,160</b>	<b>3,393,981</b>	<b>7,998,949</b>	<b>31,659,090</b>
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	1,545,120	431,006	3,549,292	5,525,418
Expenditures	1,246,510	-	198,958	1,445,468
Perpetual (nonexpendable) permanent funds	-	-	464,790	464,790
Unreserved:				
Designated	93,298	-	-	93,298
Undesignated, reported in:				
General fund	2,863,642	-	-	2,863,642
Special revenue funds	-	-	10,117,629	10,117,629
Capital projects funds	-	(3,444,030)	(5,293,097)	(8,737,127)
Permanent expendable	<u>-</u>	<u>-</u>	<u>2,090,041</u>	<u>2,090,041</u>
<b>TOTAL FUND BALANCES</b>	<b><u>5,748,570</u></b>	<b><u>(3,013,024)</u></b>	<b><u>11,127,613</u></b>	<b><u>13,863,159</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>26,014,730</u></b>	<b>\$ <u>380,957</u></b>	<b>\$ <u>19,126,562</u></b>	<b>\$ <u>45,522,249</u></b>

See notes to financial statements.

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

JUNE 30, 2008

<b>Total governmental fund balances</b>	\$ 13,863,159
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	178,811,321
• Revenues are reported on the accrual basis of accounting.	36,220,435
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	1,008,296
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(667,867)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(65,524,415)</u>
<b>Net assets of governmental activities</b>	<b>\$ <u>163,710,929</u></b>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>High School Renovation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 139,281,628	\$ -	\$ -	\$ 139,281,628
Excises	7,029,671	-	-	7,029,671
Penalties, interest and other taxes	2,690,488	-	-	2,690,488
Charges for services	2,100,345	-	7,356,490	9,456,835
Intergovernmental	50,444,856	184,138	16,946,137	67,575,131
Licenses and permits	2,906,560	-	-	2,906,560
Fines and forfeitures	592,808	-	13,998	606,806
Interest earnings	740,869	-	57,032	797,901
Contributions	-	-	555,411	555,411
Miscellaneous	1,574,477	-	174,339	1,748,816
Total Revenues	<u>207,361,702</u>	<u>184,138</u>	<u>25,103,407</u>	<u>232,649,247</u>
<b>Expenditures:</b>				
Current:				
General government	7,210,273	39,171	1,873,625	9,123,069
Public safety	22,850,758	-	2,404,410	25,255,168
Education	109,055,831	-	14,921,456	123,977,287
Public works	12,828,990	-	2,340,124	15,169,114
Human services	1,029,852	-	105,007	1,134,859
Culture and recreation	5,087,002	-	610,590	5,697,592
Employee benefits	40,234,686	-	-	40,234,686
Debt service	8,066,867	-	-	8,066,867
Intergovernmental	3,549,205	-	-	3,549,205
Capital outlay	-	650,694	6,999,067	7,649,761
Total Expenditures	<u>209,913,464</u>	<u>689,865</u>	<u>29,254,279</u>	<u>239,857,608</u>
Excess (Deficiency) of revenues over expenditures	(2,551,762)	(505,727)	(4,150,872)	(7,208,361)
<b>Other Financing Sources (Uses):</b>				
Issuance of debt	-	-	6,002,065	6,002,065
Transfers in	2,453,577	-	152,000	2,605,577
Transfers out	(152,000)	-	(315,557)	(467,557)
Total Other Financing Sources (Uses)	<u>2,301,577</u>	<u>-</u>	<u>5,838,508</u>	<u>8,140,085</u>
Change in fund balance	(250,185)	(505,727)	1,687,636	931,724
Fund Balance, at Beginning of Year, as restated	<u>5,998,755</u>	<u>(2,507,297)</u>	<u>9,439,977</u>	<u>12,931,435</u>
Fund Balance, at End of Year	<u>\$ 5,748,570</u>	<u>\$ (3,013,024)</u>	<u>\$ 11,127,613</u>	<u>\$ 13,863,159</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 931,724</b>																				
<ul style="list-style-type: none"> <li>• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of disposals</td> <td style="text-align: right;">9,542,750</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(9,717,144)</td> </tr> </table> </li> <li>• Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">56,632</td> </tr> </table> </li> <li>• Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(2,661,959)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(6,002,065)</td> </tr> <tr> <td>Repayments of debt, including capital leases</td> <td style="text-align: right;">5,696,459</td> </tr> </table> </li> <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">52,272</td> </tr> </table> </li> <li>• Some expenses reported in the Statement of Activities, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td>Decrease in liability for compensated absences</td> <td style="text-align: right;">62,747</td> </tr> <tr> <td>Increase in OPEB liability</td> <td style="text-align: right;">(14,007,989)</td> </tr> </table> </li> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>480,244</u></td> </tr> </table> </li> </ul>		Capital outlay purchases, net of disposals	9,542,750	Depreciation	(9,717,144)		56,632		(2,661,959)	Issuance of debt	(6,002,065)	Repayments of debt, including capital leases	5,696,459		52,272	Decrease in liability for compensated absences	62,747	Increase in OPEB liability	(14,007,989)		<u>480,244</u>
Capital outlay purchases, net of disposals	9,542,750																				
Depreciation	(9,717,144)																				
	56,632																				
	(2,661,959)																				
Issuance of debt	(6,002,065)																				
Repayments of debt, including capital leases	5,696,459																				
	52,272																				
Decrease in liability for compensated absences	62,747																				
Increase in OPEB liability	(14,007,989)																				
	<u>480,244</u>																				
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>(15,566,329)</u></b>																				

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

General Fund

Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual

FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Property Taxes	\$ 138,465,083	\$ 139,363,048	\$ 139,363,048	\$ -
Excise	7,279,740	7,279,740	7,029,671	(250,069)
Penalties, interest and other taxes	3,077,700	3,077,700	2,713,376	(364,324)
Charges for services	2,161,264	2,161,264	2,100,345	(60,919)
Intergovernmental	31,847,906	31,847,906	32,558,169	710,263
Licenses and permits	2,513,382	2,513,382	2,906,560	393,178
Fines and forfeitures	528,300	528,300	592,808	64,508
Interest earnings	1,100,000	1,100,000	740,869	(359,131)
Miscellaneous	1,314,467	1,314,467	1,574,477	260,010
Transfers in	2,438,510	2,452,105	2,453,577	1,472
Other sources	2,327,631	2,327,631	2,327,631	-
Total Revenues and Other Sources	193,053,983	193,965,543	194,360,531	394,988
<b>Expenditures and Other Uses:</b>				
General government	7,757,036	8,635,403	8,129,134	506,269
Public safety	23,450,971	23,481,603	22,876,928	604,675
Education	91,515,604	91,475,604	91,164,351	311,253
Public works	10,754,408	10,754,408	11,746,644	(992,236)
Human services	1,169,422	1,147,447	1,034,298	113,149
Culture and recreation	5,088,832	5,113,368	5,104,766	8,602
Employee benefits	40,219,481	40,259,481	40,227,301	32,180
Debt service	8,458,745	8,458,745	8,018,240	440,505
Intergovernmental	3,545,514	3,545,514	3,549,205	(3,691)
Transfers out	152,000	152,000	152,000	-
Other uses	941,970	941,970	941,970	-
Total Expenditures and Other Uses	193,053,983	193,965,543	192,944,837	1,020,706
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,415,694	\$ 1,415,694

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Net Assets

JUNE 30, 2008

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
<b><u>ASSETS</u></b>				
Current:				
Cash and short-term investments	\$ 3,698,268	\$ 8,736,301	\$ 12,434,569	\$ 9,190,232
User fees, net of allowance for uncollectibles	5,096,406	5,050,578	10,146,984	-
Intergovernmental	-	5,293,057	5,293,057	-
Assessments receivable	171,786	-	171,786	-
Other assets	22,910	-	22,910	-
Total current assets	8,989,370	19,079,936	28,069,306	9,190,232
Noncurrent:				
Intergovernmental	-	400,000	400,000	-
Assessments receivable, net of current portion	1,546,074	-	1,546,074	-
Other assets	114,548	-	114,548	-
Land and construction in progress	1,926,438	11,149,940	13,076,378	-
Other capital assets, net of accumulated depreciation	33,475,439	15,562,154	49,037,593	-
Total noncurrent assets	37,062,499	27,112,094	64,174,593	-
<b>TOTAL ASSETS</b>	<b>46,051,869</b>	<b>46,192,030</b>	<b>92,243,899</b>	<b>9,190,232</b>
<b><u>LIABILITIES</u></b>				
Current:				
Warrants payable	1,082,813	2,096,615	3,179,428	675
Accounts payable	143,287	69,013	212,300	-
Accrued liabilities	190,222	201,872	392,094	8,181,261
Notes payable	1,070,400	351,500	1,421,900	-
Current portion of long-term liabilities:				
Bonds payable	1,164,537	1,018,103	2,182,640	-
Compensated absences	75,130	31,660	106,790	-
Other liabilities	-	16,208	16,208	-
Total current liabilities	3,726,389	3,784,971	7,511,360	8,181,936
Noncurrent:				
Bonds and notes payable	10,314,369	14,614,406	24,928,775	-
Compensated absences	1,533	1,891	3,424	-
Other liabilities	-	81,039	81,039	-
Total noncurrent liabilities	10,315,902	14,697,336	25,013,238	-
<b>TOTAL LIABILITIES</b>	<b>14,042,291</b>	<b>18,482,307</b>	<b>32,524,598</b>	<b>8,181,936</b>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	23,846,982	16,494,017	40,340,999	-
Unrestricted	8,162,596	11,215,706	19,378,302	1,008,296
<b>TOTAL NET ASSETS</b>	<b>\$ 32,009,578</b>	<b>\$ 27,709,723</b>	<b>\$ 59,719,301</b>	<b>\$ 1,008,296</b>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<b>Operating Revenues:</b>				
Charges for services	\$ 12,309,166	\$ 13,592,304	\$ 25,901,470	\$ 36,941,554
Other	<u>24,286</u>	<u>21,281</u>	<u>45,567</u>	<u>-</u>
Total Operating Revenues	12,333,452	13,613,585	25,947,037	36,941,554
<b>Operating Expenses:</b>				
Salaries and wages	2,330,686	1,891,889	4,222,575	-
Operating expenses	2,045,800	1,709,896	3,755,696	36,848,064
Depreciation	1,018,621	704,655	1,723,276	-
Intergovernmental	6,190,441	8,690,797	14,881,238	-
Other	<u>22,910</u>	<u>-</u>	<u>22,910</u>	<u>-</u>
Total Operating Expenses	<u>11,608,458</u>	<u>12,997,237</u>	<u>24,605,695</u>	<u>36,848,064</u>
Operating Income	724,994	616,348	1,341,342	93,490
<b>Nonoperating Revenues (Expenses):</b>				
Investment income	210,477	428,069	638,546	386,754
Interest expense	<u>(394,807)</u>	<u>(285,973)</u>	<u>(680,780)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(184,330)</u>	<u>142,096</u>	<u>(42,234)</u>	<u>386,754</u>
Income Before Transfers	540,664	758,444	1,299,108	480,244
Capital contributions	-	368,752	368,752	-
Transfers in	-	-	-	-
Transfers out	<u>(1,115,684)</u>	<u>(1,022,336)</u>	<u>(2,138,020)</u>	<u>-</u>
Change in Net Assets	(575,020)	104,860	(470,160)	480,244
Net Assets at Beginning of Year	<u>32,584,598</u>	<u>27,604,863</u>	<u>60,189,461</u>	<u>528,052</u>
Net Assets at End of Year	<u>\$ 32,009,578</u>	<u>\$ 27,709,723</u>	<u>\$ 59,719,301</u>	<u>\$ 1,008,296</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Cash Flows

FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<b><u>Cash Flows From Operating Activities:</u></b>				
Receipts from customers and users	\$ 12,295,754	\$ 13,530,304	\$ 25,826,058	\$ 36,941,554
Payments to vendors	(7,426,033)	(8,445,762)	(15,871,795)	(35,054,435)
Payments to employees	(2,325,466)	(1,881,994)	(4,207,460)	-
Net Cash Provided By (Used For) Operating Activities	2,544,255	3,202,548	5,746,803	1,887,119
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>				
Transfers in	-	-	-	-
Transfer out	(1,115,684)	(1,022,336)	(2,138,020)	-
Other non operating income	-	368,752	368,752	-
Net Cash Provided by (Used For) Noncapital Financing Activities	(1,115,684)	(653,584)	(1,769,268)	-
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>				
Proceeds from issuance of bonds and notes	1,621,235	7,702,250	9,323,485	-
Acquisition and construction of capital assets	(2,831,885)	(9,700,214)	(12,532,099)	-
Principal payments on bonds and notes	(1,434,042)	(542,746)	(1,976,788)	-
Interest expense	(394,807)	(285,973)	(680,780)	-
Net Cash (Used For) Capital and Related Financing Activities	(3,039,499)	(2,826,683)	(5,866,182)	-
<b><u>Cash Flows From Investing Activities:</u></b>				
Investment income	210,477	428,069	638,546	386,754
Net Change in Cash and Short-Term Investments	(1,400,451)	150,350	(1,250,101)	2,273,873
Cash and Short-Term Investments, Beginning of Year	5,098,719	8,585,951	13,684,670	6,916,360
Cash and Short-Term Investments, End of Year	\$ 3,698,268	\$ 8,736,301	\$ 12,434,569	\$ 9,190,233
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>				
Operating income	\$ 724,994	\$ 616,348	\$ 1,341,342	\$ 93,490
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Depreciation	1,018,621	704,655	1,723,276	-
Changes in assets and liabilities:				
User fees	208,427	(308,981)	(100,554)	-
Intergovernmental	-	200,000	200,000	-
Assessments receivable	(283,211)	-	(283,211)	-
Other assets	22,910	-	22,910	(418)
Warrants payable	692,449	1,772,254	2,464,703	-
Accrued liabilities	60,389	143,010	203,399	1,794,047
Other liabilities	99,676	75,262	174,938	-
Net Cash Provided By (Used For) Operating Activities	\$ 2,544,255	\$ 3,202,548	\$ 5,746,803	\$ 1,887,119

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Fiduciary Net Assets

Fiduciary Funds

JUNE 30, 2008

	Pension Trust Fund (as of <u>December 31, 2007</u> )	Agency <u>Funds</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 880,257	\$ 6,335,722
Investments	<u>217,096,143</u>	<u>-</u>
Total Assets	217,976,400	6,335,722
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Warrants payable	-	4,200
Accounts payable	-	261,646
Deferred revenue	4,570,000	-
Other liabilities	<u>-</u>	<u>6,069,876</u>
Total Liabilities	<u>4,570,000</u>	<u>6,335,722</u>
Total Net Assets Held in Trust For Pension Benefits	\$ <u><u>213,406,400</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Changes in Plan Net Assets  
Pension Trust Fund

FOR THE YEAR ENDED DECEMBER 31, 2007

	Pension Trust Fund (as of <u>December 31, 2007</u> )
<b>Additions:</b>	
Contributions:	
Employers	\$ 8,792,742
Plan members	4,500,890
Reimbursements from Federal grants	59,747
Reimbursements from Commonwealth of Massachusetts	203,497
Reimbursements from other systems	<u>935,451</u>
Total contributions	14,492,327
Investment Income (Loss):	
Increase (decrease) in fair value of investments	23,683,892
Less: management fees	<u>(1,102,700)</u>
Net investment income (loss)	<u>22,581,192</u>
Total additions	37,073,519
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	15,379,219
Reimbursements to other systems	416,336
Refunds and transfers of plan member accounts to other systems	1,149,263
Administrative expenses	<u>266,384</u>
Total deductions	<u>17,211,202</u>
Net increase	19,862,317
<b>Net assets held in trust for pension benefits:</b>	
Beginning of Year	<u>193,544,083</u>
End of Year	<u>\$ 213,406,400</u>

See notes to financial statements.

# TOWN OF FRAMINGHAM, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Framingham (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

#### A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Framingham Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 150 Concord Street, Framingham, MA 01702.

#### B. Government-Wide and Fund Financial Statements

##### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

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

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

#### Government-Wide Financial Statements

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

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

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are

considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The high school renovation fund accounts for all costs related to construction of the new high school.

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

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

The government reports the following major proprietary funds:

- The *water fund* is used to report the Town's water enterprise fund operations.
- The *sewer fund* is used to report the Town's sewer enterprise fund operations.

The self-insured employee health program is reported as an *internal service fund* in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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

*D. Cash and Short-Term Investments*

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type was included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

*E. Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System are fully invested in the Commonwealth's Pension Reserve Investment Trust, and are carried at fair value.

*F. Property Tax Limitations*

Legislation known as "Proposition 2 ½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2008 tax levy reflected an excess capacity of \$ 61,879.

*G. Inventories*

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

*H. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	7 - 20
Infrastructure	50 - 75
Vehicles	5 - 10
Machinery, equipment and furnishings	5 - 10
Computer equipment	5

*I. Compensated Absences*

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

*J. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

*K. Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

*L. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

**2. Stewardship, Compliance, and Accountability**

*A. Budgetary Information*

At the annual town meeting, the Chief Financial Officer presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

*B. Budgetary Basis*

The General Fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

*C. Budget/GAAP Reconciliation*

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

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

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 207,361,702	\$ 209,913,464
Other financing sources/uses (GAAP basis)	<u>2,453,577</u>	<u>152,000</u>
Subtotal (GAAP Basis)	209,815,279	210,065,464
Adjust tax revenue to accrual basis	81,420	-
Reverse expenditures of prior year carryforwards	-	(1,701,179)
Add end of year appropriation carryforwards to expenditures	-	1,545,120
Teachers’ deferral	596,872	795,830

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<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
To reverse the effect of non- budgeted State contributions for teachers retirement	(17,886,687)	(17,886,687)
To reverse non-budgeted activity	22,888	28,776
To reverse change in accrued interest	-	(48,627)
Recognize other sources and uses	<u>1,730,759</u>	<u>146,140</u>
Budgetary basis	<u>\$ 194,360,531</u>	<u>\$ 192,944,837</u>

*D. Excess of Expenditures Over Appropriations*

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

Snow and ice \$ ( 1,370,085)

*E. Deficit Fund Equity*

The following funds had deficits as of June 30, 2008:

High School Renovation	\$ (3,013,024)
Nonmajor governmental funds:	
Stapleton School Roof	\$ (68,000)
Boiler Replace Walsh School	\$ (10,628)
Sanitary Line Fuller	\$ (9,742)
Boiler Replace 5 Schools	\$ (3,398)
Fuller Auditorium Ceiling	\$ (350,640)
Nonmajor governmental funds:	
Park St. Drainage	\$ (9,376)
Beach Stormwater Management	\$ (12,295)
Roof Station 2 Replace	\$ (6,650)
Communication Cabling	\$ (110,913)
Memorial Building Boiler Replace	\$ (147,167)
McAulife Branch Renovation	\$ (25,046)
Baseball Resurf	\$ (32,250)

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Beaver Dam Stormwater	\$	(7,680)
Tercent Park Phase III	\$	(163,789)
Engine 2 Fire Pumper	\$	(22,997)
Mobile Laptops	\$	(11,628)
Packer/Plow	\$	(5,122)
Voice Mail/Telephone Upgrade	\$	(40,000)
Village Hill	\$	(108,646)
Hollis St. Comm	\$	(84,800)
Main Lib Door	\$	(16,284)
Main Lib Parking	\$	(75,180)
Main Lib Rest	\$	(42,815)
Memorial Building St	\$	(9,966)
Nevins Hall Stage	\$	(87,862)
Demo Badger Rd	\$	(24,300)
Old Sr Ctr Roof	\$	(38,764)
Winch Grandstand	\$	(43,198)
Callahan Phase 3	\$	(38,600)
Replace SCBA	\$	(356,544)
Replace Maint Tr	\$	(62,237)
Comm Center Upgrade	\$	(285,000)
40K GVW Dump Body	\$	(58,360)
40 GVW Dump and Plow	\$	(58,360)
35K GVW Aerial	\$	(119,121)
40K GVW Dump	\$	(58,360)
8800 GVW Pickup	\$	(5,432)
8800 GVW Pickup and Plow	\$	(5,432)
68K Refuse Pack	\$	(211,362)
15K 4WD Cab	\$	(6,834)
Web Content Mgt	\$	(30,085)
Public Safety System	\$	(10,849)
Bombadier Sidewalk	\$	(120,351)
Front End Loader	\$	(9,901)
Community Develop Block Grant	\$	(1,000)
Mass. Turnpike Grant	\$	(14,088)
MA Off Trans-Planning	\$	(2,357)
MA EDTPW Transit	\$	(4,872)
Metro SW Adult ESL	\$	(16,359)
NIH/NEVUS Study	\$	(19,947)
Chapter 90 Highway	\$	(1,920)

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."

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 Town and System do not have a deposit policy for custodial credit risk.

As of June 30, 2008 and December 31, 2007, \$ 20,127,512 and \$ 288,351 of the Town's and System's bank balances of \$ 31,259,646 and \$ 1,156,775, respectively, was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's and System's name

### 4. Investments

#### A. Credit Risk

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

Presented below (in thousands) are the Town's investments at June 30, 2008, and, where applicable, the average credit rating of the fixed income securities (All federal agency securities have an implied credit rating of AAA):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>	
		<u>AAA</u>	<u>Not Rated</u>
Corporate stocks	\$ 1,101	\$ -	\$ 1,101
Corporate bonds	841	841	-
Certificate of deposit	719	-	719
Mutual funds	657	-	657
Federal agency securities	<u>5,137</u>	<u>5,137</u>	<u>-</u>
Total investments	\$ <u>8,455</u>	\$ <u>5,978</u>	\$ <u>2,477</u>

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

At December 31, 2007, the Contributory Retirement System maintained its investments in the State Investment Pool\* with a fair value of \$ 217,096,143. 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 and System do not have policies for custodial credit risk.

Of the investment in Corporate bonds of \$ 840,524, the government has a custodial credit risk exposure of \$ 840,524 because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities.

**C. Concentration of Credit Risk**

The Town places no limit on the amount the Town may invest in any one issuer.

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

Federal Home Loan Bank	\$ 1,517,309
Federal Home Loan Mortgage Corporation	1,671,671
Federal National Mortgage Association	1,366,925

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 and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
Corporate bonds	\$ 841	\$ -	\$ 841	\$ -
Certificate of deposit	719	361	358	-
Federal agency securities	<u>5,137</u>	<u>151</u>	<u>4,860</u>	<u>126</u>
Total	<u>\$ 6,697</u>	<u>\$ 512</u>	<u>\$ 6,059</u>	<u>\$ 126</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 does not have policies for foreign currency risk.

**5. Taxes Receivable**

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

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

Taxes receivable at June 30, 2008 consist of the following (in thousands):

Real Estate		
2008	\$ 3,362	
2007	110	
Prior	<u>7</u>	
		3,479
Personal Property		
2008	60	
2007	51	
2006	25	
2005	39	
2004	74	
Prior	<u>61</u>	
		310
Tax Liens		2,387
Deferred Taxes		271
Tax Foreclosures		<u>548</u>
Total		<u>\$ 6,995</u>

## 6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 1,441	\$ -
Excises	1,114	-
Utilities	-	453

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2008, as well as funding to be provided by the Massachusetts School Building Authority for reimbursement of approved school capital project expenditures.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 107,810,882	\$ 62,027,718	\$ -	\$ 169,838,600
Machinery, equipment and furnishings	9,898,201	2,218,349	-	12,116,550
Vehicles	13,136,922	1,957,889	-	15,094,811
Infrastructure	<u>37,067,515</u>	<u>2,057,423</u>	<u>-</u>	<u>39,124,938</u>
Total capital assets, being depreciated	167,913,520	68,261,379	-	236,174,899
Less accumulated depreciation for:				
Buildings and improvements	(39,402,856)	(6,052,793)	-	(45,455,649)
Machinery, equipment and furnishings	(5,678,012)	(1,726,410)	-	(7,404,422)
Vehicles	(8,183,573)	(1,347,105)	-	(9,530,678)
Infrastructure	<u>(13,860,125)</u>	<u>(590,836)</u>	<u>-</u>	<u>(14,450,961)</u>
Total accumulated depreciation	<u>(67,124,566)</u>	<u>(9,717,144)</u>	<u>-</u>	<u>(76,841,710)</u>
Total capital assets, being depreciated, net	100,788,954	58,544,235	-	159,333,189
Capital assets, not being depreciated:				
Land	18,616,238	-	(99,158)	18,517,080
Construction in progress	<u>59,580,523</u>	<u>367,870</u>	<u>(58,987,341)</u>	<u>961,052</u>
Total capital assets, being depreciated, net	<u>78,196,761</u>	<u>367,870</u>	<u>(59,086,499)</u>	<u>19,478,132</u>
Governmental activities capital assets, net	<u>\$ 178,985,715</u>	<u>\$ 58,912,105</u>	<u>\$ (59,086,499)</u>	<u>\$ 178,811,321</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 4,093,536	\$ 1,267,415	\$ -	\$ 5,360,951
Machinery, equipment and furnishings	1,420,876	398,027	-	1,818,903
Vehicles	3,575,028	510,745	-	4,085,773
Infrastructure	<u>66,819,360</u>	<u>6,141,579</u>	<u>-</u>	<u>72,960,939</u>
Total capital assets, being depreciated	75,908,800	8,317,766	-	84,226,566
Less accumulated depreciation for:				
Buildings and improvements	(2,384,528)	(131,914)	-	(2,516,442)
Machinery, equipment and furnishings	(692,185)	(184,971)	-	(877,156)
Vehicles	(2,061,448)	(301,610)	-	(2,363,058)
Infrastructure	<u>(28,327,536)</u>	<u>(1,104,781)</u>	<u>-</u>	<u>(29,432,317)</u>
Total accumulated depreciation	<u>(33,465,697)</u>	<u>(1,723,276)</u>	<u>-</u>	<u>(35,188,973)</u>
Total capital assets, being depreciated, net	42,443,103	6,594,490	-	49,037,593
Capital assets, not being depreciated:				
Land	232,977	59,201	-	292,178
Construction in progress	<u>8,629,066</u>	<u>10,360,764</u>	<u>(6,205,630)</u>	<u>12,784,200</u>
Total capital assets, being depreciated, net	<u>8,862,043</u>	<u>10,419,965</u>	<u>(6,205,630)</u>	<u>13,076,378</u>
Business-Type activities capital assets, net	<u>\$ 51,305,146</u>	<u>\$ 17,014,455</u>	<u>\$ (6,205,630)</u>	<u>\$ 62,113,971</u>

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

Governmental Activities:	
General government	\$ 684,003
Public safety	1,253,070
Education	4,351,290
Public works	2,328,194
Health and human services	106,151
Culture and recreation	<u>994,436</u>
Total depreciation expense - governmental activities	\$ <u><u>9,717,144</u></u>
Business-Type Activities:	
Water	\$ 1,018,621
Sewer	<u>704,655</u>
Total depreciation expense - business-type activities	\$ <u><u>1,723,276</u></u>

**9. Warrants and Accounts Payable**

Warrants payable represent 2008 expenditures paid by July 15, 2008. Accounts payable represent additional 2008 expenditures paid after July 15, 2008.

**10. Deferred Revenue**

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

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2008 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

**11. Tax Refunds Payable**

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

**12. Anticipation Notes Payable**

The Town had the following notes outstanding at June 30, 2008:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/08</u>
Bond anticipation	3.85%	11/15/07	11/14/08	\$ 2,111,172
Bond anticipation	4.00%	06/20/08	06/19/09	<u>7,658,657</u>
Total				<u>\$ 9,769,829</u>

The following summarizes activity in notes payable during fiscal year 2008:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond Anticipation	\$ 6,332,859	\$ -	(6,332,859)	\$ -
Bond Anticipation	-	2,111,172	-	2,111,172
Bond Anticipation	<u>-</u>	<u>7,658,657</u>	<u>-</u>	<u>7,658,657</u>
Total	<u>\$ 6,332,859</u>	<u>\$ 9,769,829</u>	<u>\$ (6,332,859)</u>	<u>\$ 9,769,829</u>

**13. Long-Term Debt**

*A. General Obligation Bonds*

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

Governmental Activities:

General obligation	03/25	3.79	\$	2,550,000
General obligation	03/24	3.79		1,410,000
General obligation	03/12	3.83		910,000
General obligation	08/14	4.00		6,760,000
General obligation	03/24	3.79		1,385,000
General obligation	02/19	4.34		11,000,000
General obligation	03/13	3.00		315,000
General obligation	11/23	0.00		380,724
General obligation	03/20	5.51		10,510,000
General obligation	03/24	3.00		1,260,000
General obligation	03/15	3.00		3,522,365
General obligation	06/26	4.08		2,311,000
General obligation	11/27	3.84		5,694,465
General obligation	07/27	2.00		307,600
Total Governmental			\$	<u>48,316,154</u>

Business-Type Activities:

Water bond (MWRA)	03/13	3.00	\$	320,000
Sewer bond	03/25	3.79		555,000
Water bond	03/12	3.83		60,000
Water bond (MWRA)	03/20	5.51		260,454
Sewer bond	03/12	3.83		90,000
Water bond (MWRA)	05/12	0.00		347,272
Sewer bond (MWRA)	06/15	2.54		192,893
Water	03/24	3.00		3,020,000
Sewer	03/12	3.00		20,000
Sewer (MWPAT)	03/24	0.00		262,959
Water	03/15	3.00		319,870
Sewer	03/15	3.00		432,765
Water bond	03/25	3.79		1,470,000
Sewer bond (MWRA)	11/10	0.00		324,500
Water bond (MWRA)	02/15	0.00		1,014,300
Sewer bond (MWRA)	02/10	0.00		99,220
Water bond (MWRA)	02/16	0.00		1,599,280
Sewer bond (MWRA)	11/10	0.00		139,260
Water	06/26	4.08		2,404,000
Sewer	06/26	4.08		1,185,000
Sewer	11/27	3.84		3,000,700
Water	11/27	3.84		550,835
Sewer	07/27	2.00		9,443,107
Total Business-Type			\$	<u>27,111,415</u>

**B. Future Debt Service**

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2008 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 5,917,388	\$ 2,082,361	\$ 7,999,749
2010	5,719,549	1,849,467	7,569,016
2011	5,159,947	1,621,840	6,781,787
2012	4,738,368	1,417,477	6,155,845
2013	4,401,028	1,220,729	5,621,757
2014-2018	15,750,494	3,506,086	19,256,580
2019-2023	5,735,459	701,691	6,437,150
2024-2028	<u>893,921</u>	<u>57,929</u>	<u>951,850</u>
Total	<u>\$ 48,316,154</u>	<u>\$ 12,457,580</u>	<u>\$ 60,773,734</u>

The general fund has been designated as the source to repay the governmental-type general obligation debt outstanding as of June 30, 2008.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,182,640	\$ 811,151	\$ 2,993,791
2010	2,194,208	693,438	2,887,646
2011	1,957,588	649,297	2,606,885
2012	1,846,899	605,456	2,452,355
2013	1,703,853	560,480	2,264,333
2014-2018	7,086,049	2,094,861	9,180,910
2019-2023	5,675,519	1,146,245	6,821,764
2024-2028	<u>4,464,659</u>	<u>297,095</u>	<u>4,761,754</u>
Total	<u>\$ 27,111,415</u>	<u>\$ 6,858,023</u>	<u>\$ 33,969,438</u>

**C. Bond Authorizations**

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2008 are as follows:

<u>Purpose</u>	<u>Amount</u>
High School Prog	\$ 2,156,084
Cove Avenue Water Main Replacement	820,000
Fay Road Water Main Replacement	950,000
Waverly Street Water Main Replacement	530,000
Gregory Road Sewer Relief	707,000
Cove Ave Wtr Rpl	711,500
Fay Rd Area Wtr	706,375
Automated Meter	1,232,950
W Heights Bster	765,000
Birch Road Well	1,400,000
Water St. Gregry	1,592,000
Concord School	4,557,500
Sewer Sys Eval	540,000
East Fram Sewer	1,708,500
Automated Meter	1,227,950
Wastewater Pump	7,009,800
Herbert St Sewer	1,373,250
Edgl Lib Academy Vill	650,000
Replace Rescue 1 Trck	530,000
Bowditch Mstr Plan	7,900,000
Schl Security Camera	690,000
Grove St Water Pump	2,869,836
Water St Main	8,522,150
Prospect St Wtr Main	3,000,000
N Concord St Wtr	600,000
Birch Rd Well React	2,830,400
Goodnow Wtr Tank Cnst	891,600
North Fram Pump Stn	792,500
Farm Rd. Interceptor	1,100,000
Cove Area Swr Main	1,753,750
Prospect St A Swr	2,708,907
Central St Siphon Rpl	794,000
Swr Sys Eval P3	575,000
Other (61 individual projects)	<u>10,108,766</u>
Total	\$ <u>74,304,818</u>

*D. Overlapping Debt*

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

<u>Related Entity</u>	<u>Principal</u>		<u>Town's Estimated Share</u>
MWRA - Water	\$ 1,868,396	3.72%	\$ 69,504
MWRA - Sewer	3,618,254	2.90%	<u>104,929</u>
			\$ <u><u>174,433</u></u>

*E. Legal Debt Margin*

The Town is subject to the General Laws of the Commonwealth of Massachusetts which, in general, limits the amount of bonded debt the Town may have outstanding to 5 percent of the valuation of taxable property as last equalized by the Commonwealth's Department of Revenue. The following is a computation of the legal debt margin as of June 30, 2008 (in thousands):

Equalized valuation - June 1, 2008		\$ <u>9,534,212</u>
Debt limit - 5% of equalized valuation		\$ 476,711
Total debt outstanding	75,428	
Less: debt exempt from limit	<u>(35,086)</u>	<u>40,342</u>
Legal Debt Margin		\$ <u><u>436,369</u></u> *

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

*F. Advance and Current Refundings*

Prior Year

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature on March 15, 2015. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2008, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$ 5,595,000.

*G. Changes in General Long-Term Liabilities*

During the year ended June 30, 2008, the following changes occurred in long-term liabilities (in thousands):

	Total Balance July 1, 2007	Additions	Reductions	Total Balance June 30, 2008	Less Current Portion	Equals Long-Term Portion June 30, 2008
<b>Governmental Activities</b>						
Bonds payable	\$ 47,928	\$ 6,002	\$ (5,614)	\$ 48,316	\$ (5,917)	\$ 42,399
OPEB liability	-	14,008	-	14,008	-	14,008
Accrued employee benefits	3,263	83	(146)	3,200	(2,075)	1,125
Capital leases	83	-	(83)	-	-	-
Totals	\$ <u>51,274</u>	\$ <u>20,093</u>	\$ <u>(5,843)</u>	\$ <u>65,524</u>	\$ <u>(7,992)</u>	\$ <u>57,532</u>
<b>Business-Type Activities</b>						
Bonds payable	\$ 15,794	\$ 12,995	\$ (1,677)	\$ 27,112	\$ (2,183)	\$ 24,929
Accrued employee benefits	95	17	(2)	110	(107)	3
Other liabilities	113	-	(16)	97	(16)	81
Totals	\$ <u>16,002</u>	\$ <u>13,012</u>	\$ <u>(1,695)</u>	\$ <u>27,319</u>	\$ <u>(2,306)</u>	\$ <u>25,013</u>

#### 14. **Restricted Net Assets**

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

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

#### 15. **Reserves and Designations of Fund Equity**

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use. Fund “designations,” which are not legally required segregations, have also been established to indicate tentative plans for future financial utilization.

The following types of reserves are reported at June 30, 2008:

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

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

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

## **16. General Fund Undesignated Fund Balance**

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

Massachusetts general laws include provisions to allow municipalities to overexpend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the “snow and ice” appropriation. All such overexpenditures, however, must be funded in the subsequent year’s tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The Massachusetts State Legislation also allowed municipalities to defer funding for a portion of the 1992 and 1993 teachers summer pay to future years. This must be funded within a 15 year period, beginning in 1997. The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

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

GAAP basis balance	\$ 2,863,642
Teacher pay deferral	596,872
Tax refund estimate	<u>2,291,725</u>
Statutory (UMAS) Balance	<u>\$ 5,752,239</u>

## 17. **Subsequent Events**

### Investments

Since September 2008, the stock market suffered significant losses. As a result, there may be a substantial depreciation in the value of the organization's investments.

## 18. **Commitments and Contingencies**

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

## 19. **Post-Employment Health Care and Life Insurance Benefits**

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

During the year, the Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

#### A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2008, the actuarial valuation date, approximately 1,538 retirees and 1,895 active

employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

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

*C. Funding Policy*

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

*D. Annual OPEB Costs and Net OPEB Obligation*

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

Annual Required Contribution (ARC)	\$ 25,839,476
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	25,839,476
Contributions made	(11,831,487)
Increase in net OPEB obligation	14,007,989
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	\$ 14,007,989

The Town's net OPEB obligation as of June 30, 2008 is recorded as a component of the "other long-term liabilities" line item.

*E. Funded Status and Funding Progress*

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

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

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

*F. Actuarial Methods and Assumptions*

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

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

## 20. Contributory Retirement System

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

### A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Framingham Contributory Retirement System (FCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the FCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the FCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The FCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	780
Terminated plan members entitled to but not yet receiving benefits	181
Active plan members	<u>1,201</u>
Total	<u>2,162</u>
Number of participating employers	2

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

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The Town's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions (Town Share only):

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1999	\$ 6,945,980	100%
2000	\$ 6,888,019	100%
2001	\$ 6,023,613	100%
2002	\$ 6,521,400	100%
2003	\$ 6,796,400	100%
2004	\$ 6,994,318	100%
2005	\$ 7,399,266	100%
2006	\$ 7,755,370	100%
2007	\$ 8,166,783	100%
2008	\$ 9,140,000	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent- age of Covered Payroll [(b-a)/c]</u>
01/01/08	\$ 197,875	\$ 262,770	\$ 64,895	75.3%	\$ 48,878	133%

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

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 64.9 million was calculated. The actuarial assumptions included (a) 8 % investment rate of return and (b) a projected salary increase of 4.75 - 5.25 % per year. Liabilities for cost of living increases have been assumed at an annual increase of 3 %, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8 %) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2007, the unfunded actuarially accrued liability is being amortized over 18 years using an 0.25 % annual increasing basis.

E. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute. All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

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

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

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

The Town's current year covered payroll for teachers and administrators was \$ 51,123,135.

In fiscal year 2008, the Commonwealth of Massachusetts contributed \$ 17,886,687 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

**21. Self Insurance**

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

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for claims up to \$ 75,000 per incident, with a maximum lifetime coverage of \$ 2,000,000. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2008 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year, as restated	\$ 6,387,214
Claims incurred/recognized in fiscal year 2008	36,848,064
Claims paid in fiscal year 2008	<u>(35,054,017)</u>
Claims liability, end of year	<u>\$ 8,181,261</u>

**22. 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.

**23. Beginning Fund Balance Restatement**

The beginning (July 1, 2007) fund balances of the Town have been restated to reflect the revocation of the authorization which established an Enterprise fund for the operation of the Loring Arena.

	Fund Equity 6/30/07 (as previously <u>reported</u> )	<u>Restatement</u>	Fund Equity 6/30/07 (as restated)
General fund	\$ 5,998,755	\$ -	\$ 5,998,755
High School Renovation Fund	(2,507,297)	-	(2,507,297)
Nonmajor Funds	<u>9,421,521</u>	<u>18,456</u> <sup>(1)</sup>	<u>9,439,977</u>
Total	\$ <u>12,912,979</u>	\$ <u>18,456</u>	\$ <u>12,931,435</u>

<sup>(1)</sup> Results from the closing of the Arena fund

**24. Beginning Net Assets Restatement**

The beginning (July 1, 2007) net assets of the Town have been restated as follows:

Government-Wide Financial Statements:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
As previously reported	\$ 178,715,736	\$ 60,750,983	\$ 239,466,719
Closing of the Arena Fund	<u>561,522</u>	<u>(561,522)</u>	<u>-</u>
As restated	\$ <u>179,277,258</u>	\$ <u>60,189,461</u>	\$ <u>239,466,719</u>

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

June 30, 2008

(Unaudited)

(Amounts Expressed in thousands)

**Employees' Retirement System**

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

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 389,842,640	\$ 389,842,640	0.0%	\$ 97,125,409	401%

See Independent Auditors' Report.