

**TOWN OF
FRAMINGHAM, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2007

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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, 2007 (except for the Framingham Contributory Retirement System which is as of and for the year ended December 31, 2006), 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, 2007 (except the Framingham Contributory Retirement System which is as of December 31, 2006), 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 the *Governmental Accounting Standards Board*. 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 our report dated May 28, 2008 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 28, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Framingham, we offer readers of the Town of Framingham's financial statements this narrative overview and analysis of the financial activities of the Town of Framingham for the fiscal year ended June 30, 2007. 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 \$ 239,467 (net assets). Of this amount, \$ 70,521 constitutes unrestricted net assets some of which are available for use as of June 30, 2007.
- The government's total net assets changed by \$ 2,953 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 \$ 12,913, a change of \$ (4,303) in comparison with the prior year.
- At the end of the current fiscal year, unreserved/undesignated fund balance for the general fund was \$ 2,669 or 1.3% of total general fund expenditures. Management has established an additional \$ 76 as a general fund designated fund balance.
- The Town of Framingham's total debt (bonds and bond anticipation notes) was \$ 70,055, a change of \$ (2,509) during the current fiscal 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 of the Town of Framingham's 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 distinguish functions of the Town of Framingham 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 government 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, Sewer and Arena 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, Sewer and Arena 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 to account for its self-insured employee health program. 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, Sewer and Arena 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 the 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 its 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 78,897	\$ 76,790	\$ 26,315	\$ 26,246	\$ 105,212	\$ 103,036
Capital assets	178,057	175,792	52,234	49,582	230,291	225,374
Total assets	<u>256,954</u>	<u>252,582</u>	<u>78,549</u>	<u>75,828</u>	<u>335,503</u>	<u>328,410</u>
Long-term liabilities						
outstanding	43,077	48,644	14,538	16,278	57,615	64,922
Other liabilities	35,161	24,321	3,260	2,653	38,421	26,974
Total liabilities	<u>78,238</u>	<u>72,965</u>	<u>17,798</u>	<u>18,931</u>	<u>96,036</u>	<u>91,896</u>
Net assets:						
Invested in capital assets, net of related debt	125,114	122,027	37,900	37,700	163,014	159,727
Restricted	5,932	5,950	-	-	5,932	5,950
Unrestricted	47,670	51,640	22,851	19,197	70,521	70,837
Total net assets	<u>\$ 178,716</u>	<u>\$ 179,617</u>	<u>\$ 60,751</u>	<u>\$ 56,897</u>	<u>\$ 239,467</u>	<u>\$ 236,514</u>

(continued)

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 \$ 239,467 at the close of the most recent fiscal year.

The largest portion of the Town of Framingham's net assets (68.1%) 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 net assets (2.6%) 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 \$ 70,521 which includes amounts that are available for use as of June 30, 2007, 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 \$ (901). Key elements of this change are as follows:

General fund operations	\$ (3,266)
General fund transfers from enterprise funds	<u>1,840</u>
Subtotal	(1,426)
Depreciation in excess of debt service principal paydown	(755)
Reimbursement from Massachusetts School Building Authority	1,274
Other	<u>6</u>
Total	<u><u>\$ (901)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 3,854. Key elements of this change are as follows (in thousands):

Water operations	\$ 732
Sewer operations	3,152
Nonmajor fund	<u>(30)</u>
Total	<u>\$ 3,854</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 balance of \$ 12,913, a change of \$ (4,303) 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 \$ 4,760 and (2) to be used as a funding source for the subsequent budget \$ 1,930.

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 \$ 2,669 while total fund balance was \$ 5,999. 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 1.3% of total general fund expenditures, while total fund balance represents 3.0% of that same amount. Management has established \$ 76 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	\$ 2,889	\$ 5,142	\$ 135	\$ 8,166
Use of fund balance	(4,053)	-	(135)	(4,188)
Raising of prior deficits	208	-	-	208
Revenues in excess of budget	1,385	-	-	1,385
Expenditures under budget	1,189	-	-	1,189
Other	(761)	-	-	(761)
Transfers	<u>1,812</u>	<u>(1,888)</u>	<u>76</u>	<u>-</u>
End of Year	<u>\$ 2,669</u>	<u>\$ 3,254</u>	<u>\$ 76</u>	<u>\$ 5,999</u>

Proprietary funds. The Town of Framingham's proprietary funds provide the same type of information found 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 \$ 22,851. The total growth in net assets was \$ 3,854. 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.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a change in appropriations of \$ 983, due to a change in General Government of \$ (122), Public Safety of \$ (293), Education of \$ 1,516, Public Works of \$ 78, Human Services of \$ 49, Culture and Recreation of \$ 28, Employee Benefits of \$ (5), and Debt Service of \$ (268). The additional appropriations were funded by the tax levy, transfers from other funds, and use of free cash.

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, 2007 amounts to \$ 230,291 (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):

- 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 \$ 50,864 in reimbursement which was used to pay-off bond anticipation notes. An additional \$ 1,189 was received on July 2, 2007.

- In October 2003, Town Meeting authorized \$ 1,800 in borrowing to purchase an existing building and convert it into a Senior Center. These funds, combined 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 was 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 Department of Public Works completed designs and funding applications for three appropriated sewer projects for FY07 as follows: Water Street \$ 7,295, Gregory Road \$ 745 and Fenwick Pump Station \$ 3,500. Each Project has been approved for partial funding via a 2% Clean Water State Revolving Fund loan program from the Bureau of Resource Protection. All three projects were awarded in June 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 \$ 2,017, the Booster Station Replacement at William J Heights for \$ 765, Sewer Main Replacement at Water Street and Gregory Road for \$ 1,592, Sewer Improvements at Concord and School Street \$ 5,557, Wastewater Pumping Stations projects \$ 8,009, East Framingham Sewer Improvement Project, Phase 1 \$ 2,708, as well as the Automated Meter Reading program for \$ 2,565.

CAPITAL ASSETS
(net of depreciation)
June 30, 2007 and 2006

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 18,209	\$ 18,087	\$ 640	\$ 640	\$ 18,849	\$ 18,727
Buildings and improvements	68,078	68,332	2,039	2,097	70,117	70,429
Machinery and equipment	4,047	3,811	902	885	4,949	4,696
Vehicles	4,953	4,880	1,513	1,606	6,466	6,486
Infrastructure	23,208	22,222	38,492	36,195	61,700	58,417
Construction in progress	59,562	58,460	8,648	8,159	68,210	66,619
Total	\$ 178,057	\$ 175,792	\$ 52,234	\$ 49,582	\$ 230,291	\$ 225,374

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

Long-term and short-term debt. At the end of the current fiscal year, the Town of Framingham had total bonded debt and anticipation notes outstanding of \$ 70,055, all of which was debt 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):

OUTSTANDING DEBT
General Obligation Bonds and Anticipation Notes
June 30, 2007 and 2006

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 47,563	\$ 53,244	\$ 16,159	\$ 17,940	\$ 63,722	\$ 71,184
Bond anticipation notes	5,868	1,380	465	-	6,333	1,380
Total	\$ 53,431	\$ 54,624	\$ 16,624	\$ 17,940	\$ 70,055	\$ 72,564

During FY07, Moody's Investors Service downgraded the Town's long-term rating from "Aa3" to "A1" and removed the negative outlook. The downgrade reflects the Town's limited financial flexibility and Moody's expectation that the Town will face challenges restoring its financial position to previous levels in the face of ongoing expenditure pressures.

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 \$ 466,106, which is significantly in excess of the

Town of Framingham's outstanding general obligation debt. Additional information 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 4.1% (annual), which is up slightly from the 3.9% rate from year ago. This compares to the State's unemployment rate of 4.9% and the national rate of 4.5%.
- 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 2008 fiscal year.
- During the current fiscal year, unreserved fund balance in the general fund decreased to \$ 2,669. In addition, the Town of Framingham has appropriated \$ 1,729 of "free cash" to finance the FY08 general fund operating budget; and \$ 2 to create an open space acquisition stabilization fund. The Town voted to transfer \$ 199 from the Stabilization fund during FY08.
- The \$ 1,247 of "free cash" certified by the Massachusetts Department of Revenue as of July 1, 2007 is available, subject to appropriation, to finance FY08 and FY 09 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, 2007

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 22,427,948	\$ 13,873,376	\$ 36,301,324
Investments	12,894,047	-	12,894,047
Receivables, net of allowance for uncollectibles:			
Property taxes	1,980,720	-	1,980,720
Motor vehicle excise	978,947	-	978,947
User fees	253,005	9,480,009	9,733,014
Departmental and other	29,002	-	29,002
Intergovernmental	7,866,916	800,000	8,666,916
Assessments	-	200,107	200,107
Other assets	82,997	22,910	105,907
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	2,641,777	-	2,641,777
Departmental and other	382,087	-	382,087
Intergovernmental	29,156,534	-	29,156,534
Assessments	-	1,800,964	1,800,964
Other assets	202,789	137,458	340,247
Land and construction in progress	77,771,280	9,287,524	87,058,804
Other capital assets, net of accumulated depreciation	<u>100,285,532</u>	<u>42,946,525</u>	<u>143,232,057</u>
TOTAL ASSETS	256,953,581	78,548,873	335,502,454
LIABILITIES			
Current:			
Warrants payable	4,500,701	716,947	5,217,648
Accounts payable	2,995,042	91,819	3,086,861
Retainage payable	226,611	-	226,611
Accrued liabilities	10,908,806	140,412	11,049,218
Tax refunds payable	2,735,314	-	2,735,314
Notes payable	5,868,149	464,710	6,332,859
Other liabilities	111,542	-	111,542
Current portion of long-term liabilities:			
Bonds payable	5,569,092	1,721,789	7,290,881
Compensated absences	2,163,032	108,474	2,271,506
Capital leases	82,367	-	82,367
Other liabilities	-	16,208	16,208
Noncurrent:			
Bonds payable	41,994,089	14,436,772	56,430,861
Compensated absences	1,083,100	3,512	1,086,612
Other liabilities	-	97,247	97,247
TOTAL LIABILITIES	78,237,845	17,797,890	96,035,735
NET ASSETS			
Invested in capital assets, net of related debt	125,114,571	37,899,632	163,014,203
Restricted for:			
Grants and other statutory restrictions	3,108,489	-	3,108,489
Permanent funds:			
Nonexpendable	464,790	-	464,790
Expendable	2,358,188	-	2,358,188
Unrestricted	<u>47,669,698</u>	<u>22,851,351</u>	<u>70,521,049</u>
TOTAL NET ASSETS	\$ <u>178,715,736</u>	\$ <u>60,750,983</u>	\$ <u>239,466,719</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Activities

For the Year Ended June 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 10,164,392	\$ 1,735,059	\$ 1,059,235	\$ 1,161,842	\$ (6,208,256)	\$ -	\$ (6,208,256)
Public safety	25,035,917	4,170,777	725,593	-	(20,139,547)	-	(20,139,547)
Education	123,033,880	4,362,369	41,899,402	-	(76,772,109)	-	(76,772,109)
Public works	12,581,377	383,278	50,464	2,035,455	(10,112,180)	-	(10,112,180)
Health and human services	1,222,522	133,802	1,070,460	-	(18,260)	-	(18,260)
Culture and recreation	5,477,671	447,516	353,666	18,000	(4,658,489)	-	(4,658,489)
Employee benefits	47,278,030	-	7,948,722	-	(39,329,308)	-	(39,329,308)
Interest	2,333,885	-	-	-	(2,333,885)	-	(2,333,885)
Intergovernmental	3,315,267	-	-	-	(3,315,267)	-	(3,315,267)
Total Governmental Activities	230,442,941	11,232,801	53,107,542	3,215,297	(162,887,301)	-	(162,887,301)
Business-Type Activities:							
Water services	12,226,240	13,666,728	-	-	-	1,440,488	1,440,488
Sewer services	12,322,251	15,906,641	-	-	-	3,584,390	3,584,390
Nonmajor services	514,196	360,033	-	-	-	(154,163)	(154,163)
Total Business-type Activities	25,062,687	29,933,402	-	-	-	4,870,715	4,870,715
Total Primary Government	\$ 255,505,628	\$ 41,166,203	\$ 53,107,542	\$ 3,215,297	(162,887,301)	4,870,715	(158,016,586)
General Revenues and transfers:							
Property taxes					132,693,167	-	132,693,167
Motor vehicle and other excise taxes					6,648,945	-	6,648,945
Penalties and interest on taxes					1,859,978	-	1,859,978
Grants and contributions not restricted to specific programs					15,208,707	-	15,208,707
Investment income					1,940,548	822,842	2,763,390
Miscellaneous					1,795,230	-	1,795,230
Transfers, net					1,839,594	(1,839,594)	-
Total general revenues and transfers					161,986,169	(1,016,752)	160,969,417
Change in Net Assets					(901,132)	3,853,963	2,952,831
Net Assets:							
Beginning of Year					179,616,868	56,897,020	236,513,888
End of Year					\$ 178,715,736	\$ 60,750,983	\$ 239,466,719

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Balance Sheet

June 30, 2007

	<u>General</u>	<u>High School Renovation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 9,547,711	\$ 153,691	\$ 5,810,186	\$ 15,511,588
Investments	6,936,117	-	5,957,930	12,894,047
Receivables:				
Property taxes	6,143,955	-	-	6,143,955
Motor vehicle excise	1,942,319	-	-	1,942,319
User fees	-	-	253,005	253,005
Departmental and other	29,002	-	382,087	411,089
Intergovernmental	-	1,188,987	4,015,970	5,204,957
Other assets	49,199	-	-	49,199
TOTAL ASSETS	<u>\$ 24,648,303</u>	<u>\$ 1,342,678</u>	<u>\$ 16,419,178</u>	<u>\$ 42,410,159</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 2,666,195	\$ 321,965	\$ 1,511,447	\$ 4,499,607
Accounts payable	-	-	420,206	420,206
Retainage payable	-	226,611	-	226,611
Accrued liabilities	5,834,282	1,249	544,706	6,380,237
Tax refunds payable	2,735,314	-	-	2,735,314
Deferred revenues	7,302,215	-	1,953,299	9,255,514
Other liabilities	111,542	-	-	111,542
Notes payable	-	3,300,150	2,567,999	5,868,149
TOTAL LIABILITIES	18,649,548	3,849,975	6,997,657	29,497,180
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	1,522,888	885,879	2,351,569	4,760,336
Expenditures	1,730,759	-	198,958	1,929,717
Perpetual (nonexpendable) permanent funds	-	-	464,790	464,790
Unreserved:				
Designated	75,967	-	-	75,967
Undesignated, reported in:				
General fund	2,669,141	-	-	2,669,141
Special revenue funds	-	-	7,040,289	7,040,289
Capital projects funds	-	(3,393,176)	(2,992,273)	(6,385,449)
Permanent expendable	-	-	2,358,188	2,358,188
TOTAL FUND BALANCES	<u>5,998,755</u>	<u>(2,507,297)</u>	<u>9,421,521</u>	<u>12,912,979</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 24,648,303</u>	<u>\$ 1,342,678</u>	<u>\$ 16,419,178</u>	<u>\$ 42,410,159</u>

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, 2007

Total governmental fund balances	\$ 12,912,979
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	178,056,812
• Revenues are reported on the accrual basis of accounting.	38,825,764
• 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.	528,052
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(716,191)
• 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>(50,891,680)</u>
Net assets of governmental activities	<u>\$ 178,715,736</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2007

	<u>General</u>	<u>High School Renovation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 132,951,440	\$ -	\$ -	\$ 132,951,440
Excises	6,518,172	-	-	6,518,172
Penalties, interest and other taxes	2,792,539	-	-	2,792,539
Charges for services	3,005,012	-	6,884,709	9,889,721
Intergovernmental	44,956,627	1,273,810	17,554,932	63,785,369
Licenses and permits	2,149,077	-	-	2,149,077
Fines and forfeitures	489,254	-	-	489,254
Interest earnings	1,002,619	-	698,039	1,700,658
Contributions	-	-	592,598	592,598
Miscellaneous	1,066,875	-	178,126	1,245,001
Total Revenues	<u>194,931,615</u>	<u>1,273,810</u>	<u>25,908,404</u>	<u>222,113,829</u>
Expenditures:				
Current:				
General government	7,257,827	40,698	2,672,123	9,970,648
Public safety	22,015,542	-	2,142,247	24,157,789
Education	104,599,114	-	16,528,557	121,127,671
Public works	10,167,899	-	3,072,837	13,240,736
Human services	1,039,555	-	106,253	1,145,808
Culture and recreation	4,379,147	-	677,430	5,056,577
Employee benefits	37,377,499	-	-	37,377,499
Debt service	8,045,971	-	-	8,045,971
Intergovernmental	3,315,267	-	-	3,315,267
Capital outlay	-	1,288,182	3,530,175	4,818,357
Total Expenditures	<u>198,197,821</u>	<u>1,328,880</u>	<u>28,729,622</u>	<u>228,256,323</u>
Excess (Deficiency) of revenues over expenditures	(3,266,206)	(55,070)	(2,821,218)	(6,142,494)
Other Financing Sources (Uses):				
Transfers in	2,423,689	-	1,102,440	3,526,129
Transfers out	(1,324,419)	-	(362,116)	(1,686,535)
Total Other Financing Sources (Uses)	<u>1,099,270</u>	<u>-</u>	<u>740,324</u>	<u>1,839,594</u>
Change in fund balance	(2,166,936)	(55,070)	(2,080,894)	(4,302,900)
Fund Balance, July 1, 2006	<u>8,165,691</u>	<u>(2,452,227)</u>	<u>11,502,415</u>	<u>17,215,879</u>
Fund Balance, June 30, 2007	<u>\$ 5,998,755</u>	<u>\$ (2,507,297)</u>	<u>\$ 9,421,521</u>	<u>\$ 12,912,979</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, 2007

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (4,302,900)
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: 	
Capital outlay purchases	8,881,032
Depreciation	(6,615,768)
<ul style="list-style-type: none"> 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. 	
	(827,720)
<ul style="list-style-type: none"> 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. 	
	(3,229,737)
<ul style="list-style-type: none"> 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: 	
Repayments of debt, including capital leases	5,860,331
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	
	31,038
<ul style="list-style-type: none"> Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	
	(442,722)
<ul style="list-style-type: none"> 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. 	
	<u>(254,686)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(901,132)</u>

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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Property Taxes	\$ 133,861,896	\$ 133,906,896	\$ 133,906,896	\$ -
Excise	7,300,000	7,300,000	6,518,172	(781,828)
Penalties, interest and other taxes	2,443,156	2,443,156	2,792,539	349,383
Charges for services	2,697,110	2,697,110	3,005,012	307,902
Intergovernmental	27,575,909	27,575,909	28,059,338	483,429
Licenses and permits	2,050,000	2,050,000	2,149,077	99,077
Fines and forfeitures	476,700	476,700	489,254	12,554
Interest earnings	1,023,608	1,023,608	1,002,619	(20,989)
Miscellaneous	176,797	176,797	1,066,875	890,078
Transfers in	2,331,439	2,356,846	2,402,448	45,602
Other sources	4,070,752	4,983,788	4,983,788	-
Total Revenues and Other Sources	184,007,367	184,990,810	186,376,018	1,385,208
Expenditures and Other Uses:				
General government	7,607,266	7,485,463	7,304,697	180,766
Public safety	22,601,064	22,307,637	22,071,670	235,967
Education	86,156,178	87,672,297	87,668,483	3,814
Public works	10,222,210	10,299,882	10,123,719	176,163
Human services	1,015,145	1,063,985	1,040,806	23,179
Culture and recreation	4,372,037	4,400,081	4,364,566	35,515
Employee benefits	37,429,286	37,424,784	37,371,187	53,597
Debt service	8,468,613	8,201,113	8,054,183	146,930
Intergovernmental	3,636,271	3,636,271	3,315,267	321,004
Transfers out	1,296,682	1,296,682	1,284,419	12,263
Other uses	1,202,615	1,202,615	1,202,615	-
Total Expenditures and Other Uses	184,007,367	184,990,810	183,801,612	1,189,198
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,574,406	\$ 2,574,406

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Net Assets

June 30, 2007

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water Fund	Sewer Fund	Nonmajor Fund	Total	Internal Service Funds
<u>ASSETS</u>					
Current:					
Cash and short-term investments	\$ 5,098,719	\$ 8,585,951	\$ 188,706	\$ 13,873,376	\$ 6,916,360
User fees, net of allowance for uncollectibles	4,738,411	4,741,598	-	9,480,009	-
Intergovernmental	-	800,000	-	800,000	-
Assessments receivable	200,107	-	-	200,107	-
Other assets	22,910	-	-	22,910	-
Total current assets	10,060,147	14,127,549	188,706	24,376,402	6,916,360
Noncurrent:					
Assessments receivable, net of current portion	1,800,964	-	-	1,800,964	-
Other assets	137,458	-	-	137,458	-
Land and construction in progress	4,376,223	4,485,820	425,481	9,287,524	-
Other capital assets, net of accumulated depreciation	29,212,390	13,230,714	503,421	42,946,525	-
Total noncurrent assets	35,527,035	17,716,534	928,902	54,172,471	-
TOTAL ASSETS	45,587,182	31,844,083	1,117,608	78,548,873	6,916,360
<u>LIABILITIES</u>					
Current:					
Warrants payable	390,364	324,361	2,222	716,947	2,575,930
Accounts payable	88,118	3,646	55	91,819	-
Accrued liabilities	90,546	42,654	7,212	140,412	3,812,378
Notes payable	300,000	-	164,710	464,710	-
Current portion of long-term liabilities:					
Bonds payable	1,134,042	542,747	45,000	1,721,789	-
Compensated absences	69,903	22,022	16,549	108,474	-
Other liabilities	-	16,208	-	16,208	-
Total current liabilities	2,072,973	951,638	235,748	3,260,359	6,388,308
Noncurrent:					
Bonds and notes payable	10,928,071	3,188,701	320,000	14,436,772	-
Compensated absences	1,540	1,634	338	3,512	-
Other liabilities	-	97,247	-	97,247	-
Total noncurrent liabilities	10,929,611	3,287,582	320,338	14,537,531	-
TOTAL LIABILITIES	13,002,584	4,239,220	556,086	17,797,890	6,388,308
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	22,610,438	14,729,947	559,247	37,899,632	-
Unrestricted	9,974,160	12,874,916	2,275	22,851,351	528,052
TOTAL NET ASSETS	\$ 32,584,598	\$ 27,604,863	\$ 561,522	\$ 60,750,983	\$ 528,052

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, 2007

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water Fund	Sewer Fund	Nonmajor Fund	Total	Internal Service Fund
Operating Revenues:					
Charges for services	\$ 13,594,386	\$ 15,885,074	\$ 355,593	\$ 29,835,053	\$ 35,606,907
Other	<u>72,342</u>	<u>21,567</u>	<u>4,440</u>	<u>98,349</u>	<u>-</u>
Total Operating Revenues	13,666,728	15,906,641	360,033	29,933,402	35,606,907
Operating Expenses:					
Salaries and wages	2,207,065	1,559,036	308,267	4,074,368	-
Operating expenses	2,503,146	1,514,965	160,147	4,178,258	36,101,483
Depreciation	937,346	703,036	38,895	1,679,277	-
Intergovernmental	6,236,824	8,427,956	-	14,664,780	-
Other	<u>22,910</u>	<u>-</u>	<u>-</u>	<u>22,910</u>	<u>-</u>
Total Operating Expenses	<u>11,907,291</u>	<u>12,204,993</u>	<u>507,309</u>	<u>24,619,593</u>	<u>36,101,483</u>
Operating Income	1,759,437	3,701,648	(147,276)	5,313,809	(494,576)
Nonoperating Revenues (Expenses):					
Investment income	306,609	513,990	2,243	822,842	239,890
Interest expense	<u>(318,949)</u>	<u>(117,258)</u>	<u>(6,887)</u>	<u>(443,094)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(12,340)</u>	<u>396,732</u>	<u>(4,644)</u>	<u>379,748</u>	<u>239,890</u>
Income Before Transfers	1,747,097	4,098,380	(151,920)	5,693,557	(254,686)
Transfers:					
Transfers in	-	-	221,979	221,979	521,088
Transfers out	<u>(1,014,914)</u>	<u>(946,080)</u>	<u>(100,579)</u>	<u>(2,061,573)</u>	<u>(521,088)</u>
Change in Net Assets	732,183	3,152,300	(30,520)	3,853,963	(254,686)
Net Assets at Beginning of Year	<u>31,852,415</u>	<u>24,452,563</u>	<u>592,042</u>	<u>56,897,020</u>	<u>782,738</u>
Net Assets at End of Year	<u>\$ 32,584,598</u>	<u>\$ 27,604,863</u>	<u>\$ 561,522</u>	<u>\$ 60,750,983</u>	<u>\$ 528,052</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Proprietary Funds

Statement of Cash Flows

For the Year Ended June 30, 2007

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water Fund	Sewer Fund	Nonmajor Fund	Total	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>					
Receipts from customers and users	\$ 12,969,580	\$ 14,352,049	\$ 359,715	\$ 27,681,344	\$ 35,972,544
Payments to vendors	(8,564,361)	(9,915,229)	(160,147)	(18,639,737)	(31,744,778)
Payments to employees	<u>(2,198,230)</u>	<u>(1,564,228)</u>	<u>(302,947)</u>	<u>(4,065,405)</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	2,206,989	2,872,592	(103,379)	4,976,202	4,227,766
<u>Cash Flows From Noncapital Financing Activities:</u>					
Transfers in	-	-	221,979	221,979	521,088
Transfer out	<u>(1,014,914)</u>	<u>(946,080)</u>	<u>(100,579)</u>	<u>(2,061,573)</u>	<u>(521,088)</u>
Net Cash Provided by (Used For) Noncapital Financing Activities	(1,014,914)	(946,080)	121,400	(1,839,594)	-
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Proceeds from issuance of bonds and notes	300,000	-	164,710	464,710	-
Acquisition and construction of capital assets	(953,913)	(3,353,238)	(24,242)	(4,331,393)	-
Principal payments on bonds and notes	(1,139,433)	(591,586)	(50,000)	(1,781,019)	-
Interest expense	<u>(318,949)</u>	<u>(117,258)</u>	<u>(6,887)</u>	<u>(443,094)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(2,112,295)	(4,062,082)	83,581	(6,090,796)	-
<u>Cash Flows From Investing Activities:</u>					
Investment income	<u>306,609</u>	<u>513,990</u>	<u>2,243</u>	<u>822,842</u>	<u>239,890</u>
Net Change in Cash and Short-Term Investments	(613,611)	(1,621,580)	103,845	(2,131,346)	4,467,656
Cash and Short-Term Investments, Beginning of Year	<u>5,712,330</u>	<u>10,207,531</u>	<u>84,861</u>	<u>16,004,722</u>	<u>2,448,704</u>
Cash and Short-Term Investments, End of Year	<u>\$ 5,098,719</u>	<u>\$ 8,585,951</u>	<u>\$ 188,706</u>	<u>\$ 13,873,376</u>	<u>\$ 6,916,360</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>					
Operating income	\$ 1,759,437	\$ 3,701,648	\$ (147,276)	\$ 5,313,809	\$ (494,576)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	937,346	703,036	38,895	1,679,277	-
Changes in assets and liabilities:					
User fees	(578,033)	(727,312)	-	(1,305,345)	-
Intergovernmental	-	(800,000)	-	(800,000)	-
Assessments receivable	(117,464)	-	-	(117,464)	-
Other assets	22,910	-	-	22,910	365,637
Warrants payable	172,004	29,773	901	202,678	2,575,649
Accrued liabilities	1,954	(13,153)	(940)	(12,139)	1,781,056
Other liabilities	<u>8,835</u>	<u>(21,400)</u>	<u>5,041</u>	<u>(7,524)</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 2,206,989</u>	<u>\$ 2,872,592</u>	<u>\$ (103,379)</u>	<u>\$ 4,976,202</u>	<u>\$ 4,227,766</u>

See notes to financial statements.

TOWN OF FRAMINGHAM, MASSACHUSETTS

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2007

	Pension Trust Fund (as of <u>December 31, 2006</u>)	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 1,272,841	\$ 5,481,491
Investments	<u>196,496,402</u>	<u>-</u>
Total Assets	197,769,243	5,481,491
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	2,418	-
Deferred revenue	4,222,742	-
Other liabilities	<u>-</u>	<u>5,481,491</u>
Total Liabilities	<u>4,225,160</u>	<u>5,481,491</u>
Total Net Assets Held in Trust For Pension Benefits	\$ <u><u>193,544,083</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, 2006

Additions:

Contributions:

Employers	\$ 8,245,655
Plan members	5,333,439
Reimbursements from Federal grants	109,447
Reimbursements from Commonwealth of Massachusetts	533,225
Reimbursements from other systems	<u>274,927</u>
Total contributions	14,496,693

Investment Income (Loss):

Increase (decrease) in fair value of investments	28,747,987
Less: management fees	<u>(1,053,680)</u>
Net investment income (loss)	<u>27,694,307</u>

Total additions 42,191,000

Deductions:

Benefit payments to plan members and beneficiaries	14,933,586
Reimbursements to other systems	404,668
Refunds and transfers of plan member accounts to other systems	839,954
Administrative expenses	<u>214,994</u>
Total deductions	<u>16,393,202</u>

Net increase 25,797,798

Net assets held in trust for pension benefits:

Beginning of Year	<u>167,746,285</u>
End of Year	<u><u>\$ 193,544,083</u></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 are 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 non-operating 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.

In addition, the Town also maintains an enterprise fund for Arena activities, which is reported as a nonmajor fund.

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 1/2" limits 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 or debt exemption is voted. The actual fiscal year 2007 tax levy reflected an excess capacity of \$ 80,431.

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 (for enterprise funds only) 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 budget.

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>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 194,931,615	\$ 198,197,821
Other financing sources/uses (GAAP basis)	<u>2,423,689</u>	<u>1,324,419</u>
Subtotal (GAAP Basis)	197,355,304	199,522,240
Adjust tax revenue to accrual basis	955,456	-
Reverse expenditures of prior year carryforwards	-	(904,324)
Add end of year appropriation carryforwards to expenditures	-	909,391
Teachers' deferral	795,830	994,788
		(continued)
(continued)		

(continued)

	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
<u>General Fund</u>		
To reverse the effect of non- budgeted State contributions for teachers retirement	(16,897,289)	(16,897,289)
To reverse non-budgeted activity	(21,241)	(21,241)
To reverse change in accrued interest	-	(9,780)
Recognize other sources and uses	<u>4,187,958</u>	<u>207,827</u>
Budgetary basis	\$ <u><u>186,376,018</u></u>	\$ <u><u>183,801,612</u></u>

D. Deficit Fund Equity/Net Assets

The following funds had deficits as of June 30, 2007:

High School Renovation	\$ (2,507,297)
Nonmajor governmental funds:	
Stapleton School Roof	\$ (176,503)
Replace Emergency Generator	\$ (4,800)
Sanitary Line Fuller	\$ (17,497)
Stapleton Roof Supplement	\$ (129,505)
Boiler Replace 5 Schools	\$ (428,279)
Fuller Auditorium Ceiling	\$ (27,000)
Tercent Park Phase II	\$ (79,345)
Pedestrian Ramps	\$ (35,093)
Beach Stormwater Management	\$ (96,055)
Roof Station 2 Replace	\$ (38,025)
Communication Cabling	\$ (16,972)
McAulife Branch Renovation	\$ (45,315)
Beaver Dam Stormwater	\$ (104,183)
Sidewalk Accessibility	\$ (97,625)
Tercent Park Phase III	\$ (12,000)
Engine 2 Fire Pumper	\$ (373,295)
Trash Compactor	\$ (68,063)
Kubota Tractor	\$ (24,300)
Mobile Laptops	\$ (144,443)
Multi-Purpose Sidewalk	\$ (96,665)
Packer/Plow	\$ (182,222)
Dump Truck	\$ (9,418)
Voice Mail/Telephone Upgrade	\$ (6,763)
Community Develop Block Grant	\$ (103,780)
Mass. Turnpike Grant	\$ (5,905)
MA Off Trans-Planning	\$ (7,994)
MA Hist Comm-Athenaeum Reno	\$ (8,220)
Metro SW Adult ESL	\$ (12,040)
NIH/NEVUS Study	\$ (16,106)

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, 2007 and December 31, 2006, \$ 31,365,004 and \$ 863,828 of the Town's and System's bank balances of \$ 37,143,153 and \$ 1,810,204 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 investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below are the Town's investments at June 30, 2007, and, where applicable, the average credit rating of the fixed income securities (in thousands):

<u>Investment Type</u>	Fair <u>Value</u>	<u>Rating as of Year End</u>	
		<u>AAA</u>	<u>Not Rated</u>
Corporate stocks	\$ 1,147	\$ -	\$ 1,147
Corporate bonds	375	375	-
Certificate of deposit	1,431	-	1,431
Mutual funds	739	-	739
Federal agency securities	<u>9,202</u>	<u>9,202</u>	<u>-</u>
Total investments	\$ <u>12,894</u>	\$ <u>9,577</u>	\$ <u>3,317</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, 2006, the Contributory Retirement System maintained its investments in the State Investment Pool* with a fair value of \$ 196,496,402. 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 the System do not have policies for custodial credit risk.

C. Concentration of Credit Risk

The Town and the System place no limit on the amount the Town and the System 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:

Morgan Stanley Municipal Bond	\$ 4,000,000
Federal Home Loan Bank	2,706,122
Federal Home Loan Mortgage Corporation	1,389,781
Federal National Mortgage Association	1,093,812

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>
<u>Debt Related Securities:</u>				
Corporate bonds	\$ 375	\$ -	\$ 375	\$ -
Federal agency securities	<u>9,202</u>	<u>549</u>	<u>8,481</u>	<u>172</u>
Total	<u>\$ 9,577</u>	<u>\$ 549</u>	<u>\$ 8,856</u>	<u>\$ 172</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, 2007 consist of the following (in thousands):

Real Estate		
2007	\$ 1873	
2006	15	
2004	1	
2003	3	
Prior	<u>3</u>	1,895
Personal Property		
2007	59	
2006	28	
2005	44	
2004	77	
2003	87	
Prior	<u>159</u>	454
Tax Liens		2,935
Deferred Taxes		250
Tax Foreclosures		<u>610</u>
Total		<u>\$ 6,144</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	\$ 1,521	\$ -
Excises	963	-
Utilities	-	447

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2007, 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, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 103,953,987	\$ 2,872,009	\$ -	\$ 106,825,996
Machinery, equipment and furnishings	7,847,909	1,636,962	-	9,484,871
Vehicles	11,884,741	1,240,399	-	13,125,140
Infrastructure	<u>35,160,557</u>	<u>1,906,958</u>	<u>-</u>	<u>37,067,515</u>
Total capital assets, being depreciated	158,847,194	7,656,328	-	166,503,522
Less accumulated depreciation for:				
Buildings and improvements	(35,621,627)	(3,126,244)	-	(38,747,871)
Machinery, equipment and furnishings	(4,037,172)	(1,401,031)	-	(5,438,203)
Vehicles	(7,004,645)	(1,167,146)	-	(8,171,791)
Infrastructure	<u>(12,938,778)</u>	<u>(921,347)</u>	<u>-</u>	<u>(13,860,125)</u>
Total accumulated depreciation	<u>(59,602,222)</u>	<u>(6,615,768)</u>	<u>-</u>	<u>(66,217,990)</u>
Total capital assets, being depreciated, net	99,244,972	1,040,560	-	100,285,532
Capital assets, not being depreciated:				
Land	18,087,140	122,272	-	18,209,412
Construction in progress	<u>58,459,436</u>	<u>3,470,269</u>	<u>(2,367,837)</u>	<u>59,561,868</u>
Total capital assets, being depreciated, net	<u>76,546,576</u>	<u>3,592,541</u>	<u>(2,367,837)</u>	<u>77,771,280</u>
Governmental activities capital assets, net	<u>\$ 175,791,548</u>	<u>\$ 4,633,101</u>	<u>\$ (2,367,837)</u>	<u>\$ 178,056,812</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 5,009,568	\$ 68,854	\$ -	\$ 5,078,422
Machinery, equipment and furnishings	1,617,854	216,352	-	1,834,206
Vehicles	3,375,652	211,158	-	3,586,810
Infrastructure	<u>63,645,855</u>	<u>3,363,126</u>	<u>(189,621)</u>	<u>66,819,360</u>
Total capital assets, being depreciated	73,648,929	3,859,490	(189,621)	77,318,798
Less accumulated depreciation for:				
Buildings and improvements	(2,912,964)	(126,549)	-	(3,039,513)
Machinery, equipment and furnishings	(732,774)	(199,220)	-	(931,994)
Vehicles	(1,769,732)	(303,498)	-	(2,073,230)
Infrastructure	<u>(27,450,477)</u>	<u>(1,050,010)</u>	<u>172,951</u>	<u>(28,327,536)</u>
Total accumulated depreciation	<u>(32,865,947)</u>	<u>(1,679,277)</u>	<u>172,951</u>	<u>(34,372,273)</u>
Total capital assets, being depreciated, net	40,782,982	2,180,213	(16,670)	42,946,525
Capital assets, not being depreciated:				
Land	639,803	-	-	639,803
Construction in progress	<u>8,159,148</u>	<u>3,443,257</u>	<u>(2,954,684)</u>	<u>8,647,721</u>
Total capital assets, being depreciated, net	<u>8,798,951</u>	<u>3,443,257</u>	<u>(2,954,684)</u>	<u>9,287,524</u>
Business-Type activities capital assets, net	<u>\$ 49,581,933</u>	<u>\$ 5,623,470</u>	<u>\$ (2,971,354)</u>	<u>\$ 52,234,049</u>

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

Governmental Activities:	
General government	\$ 524,531
Public safety	938,267
Education	2,600,415
Public works	1,788,650
Health and human services	77,121
Culture and recreation	<u>686,784</u>
Total depreciation expense - governmental activities	<u>\$ 6,615,768</u>
Business-Type Activities:	
Water	\$ 937,346
Sewer	703,036
Arena	<u>38,895</u>
Total depreciation expense - business-type activities	<u>\$ 1,679,277</u>

9. Warrants and Accounts Payable

Warrants payable represent 2007 expenditures paid by July 15, 2007 as permitted by law. Accounts payable represent additional 2007 expenditures paid after July 15, 2007.

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, 2007 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. Notes Payable

The Town had the following notes outstanding at June 30, 2007:

	Interest Rate	Date of Issue	Date of Maturity	Balance at June 30, 2007
Bond anticipation	4.250%	06/15/07	11/15/07	\$ <u>6,332,859</u>
Total				\$ <u>6,332,859</u>

The following summarizes activity in notes payable during fiscal year 2007:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond Anticipation	\$ 1,380,000	\$ -	\$ (1,380,000)	\$ -
Bond Anticipation	-	2,622,000	(2,622,000)	-
Bond Anticipation	-	<u>6,332,859</u>	-	<u>6,332,859</u>
Total	\$ <u>1,380,000</u>	\$ <u>8,954,859</u>	\$ <u>(4,002,000)</u>	\$ <u>6,332,859</u>

13. Capital Lease Obligations

The Town is the lessee of modular classrooms under a capital lease expiring in November 2007. Future minimum lease payments under the capital lease consist of the following as of June 30, 2007:

2008	\$ <u>85,265</u>
Total minimum lease payments	85,265
Less: amount representing interest	<u>(2,898)</u>
Present Value of Minimum Lease Payments	\$ <u>82,367</u>

14. Long-Term Debt

A. General Obligation Bonds

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

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2007
<u>Governmental Activities:</u>			
General obligation	03/25	3.79	\$ 2,700,000
General obligation	03/24	3.79	1,510,000
General obligation	07/07	4.43	350,000
General obligation	03/12	3.83	1,170,000
General obligation	08/14	4.00	7,965,000
General obligation	03/24	3.79	1,575,000
General obligation	02/19	4.34	11,960,000
General obligation	03/13	3.00	420,000
General obligation	11/23	0.00	400,375
General obligation	03/20	5.51	11,425,000
General obligation	03/24	3.00	1,160,000
General obligation	03/15	3.00	4,174,806
General obligation	06/26	4.08	2,753,000
Total Governmental			\$ <u>47,563,181</u>

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2007
<u>Business-Type Activities:</u>			
Water bond (MWRA)	03/13	3.00	\$ 355,000
Sewer bond	03/25	3.79	595,000
Water bond	03/12	3.83	75,000
Water bond (MWRA)	03/20	5.51	347,272
Sewer bond	11/08	0.00	45,000
Sewer bond	03/12	3.83	115,000
Water bond (MWRA)	05/12	0.00	434,090
Sewer bond (MWRA)	06/15	2.54	214,784
Arena	02/19	4.34	40,000
Arena	08/14	4.00	40,000
Arena	03/23	3.00	285,000
Water	03/24	3.00	3,225,000
Sewer	03/12	3.00	25,000
Sewer (MWPAT)	03/24	0.00	275,572
Water	03/15	3.00	369,832
Sewer	03/15	3.00	500,361
Water bond	03/25	3.79	1,590,000
Sewer bond (MWRA)	11/10	0.00	486,750
Water bond (MWRA)	02/15	0.00	1,159,200
Sewer bond (MWRA)	02/10	0.00	148,830
Water bond (MWRA)	02/16	0.00	1,799,190
Sewer bond (MWRA)	11/10	0.00	185,680
Water	06/26	4.08	2,577,000
Sewer	06/26	4.08	1,270,000
Total Business-Type			\$ <u>16,158,561</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2007 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 5,569,092	\$ 2,043,080	\$ 7,612,172
2009	5,110,727	1,836,438	6,947,165
2010	5,001,640	1,636,049	6,637,689
2011	4,471,778	1,436,277	5,908,055
2012	4,074,932	1,258,449	5,333,381
2013-2017	15,610,012	3,815,552	19,425,564
2018-2022	6,740,000	893,266	7,633,266
2023-2027	985,000	69,835	1,054,835
Total	\$ <u>47,563,181</u>	\$ <u>12,988,946</u>	\$ <u>60,552,127</u>

The general fund has been designated as the source to repay the governmental-type general obligation debt outstanding as of June 30, 2007.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,721,789	\$ 430,233	\$ 2,152,022
2009	1,656,894	401,747	2,058,641
2010	1,653,079	373,211	2,026,290
2011	1,403,436	343,620	1,747,056
2012	1,259,563	315,327	1,574,890
2013-2017	4,625,454	1,124,279	5,749,733
2018-2022	2,470,247	567,832	3,038,079
2023-2027	1,368,099	114,410	1,482,509
Total	\$ <u>16,158,561</u>	\$ <u>3,670,659</u>	\$ <u>19,829,220</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2007 are as follows:

<u>Purpose</u>	<u>Amount</u>
High School Prog	\$ 2,156,084
Memorial Building Boiler Replacement	809,339
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
Pump Station Replacement	3,104,000
Water St. Sewer Replacement	6,785,000
McCarthy School	560,000
Cove Ave Wtr Rpl	1,011,500
Fay Rd Area Wtr	1,006,375
Waverly St. Wtr. Mn	552,250
Automated Meter	1,282,950
W Heights Bster	765,000
Birch Road Well	1,400,000
Water St. Gregry	1,592,000
Concord School	5,557,500
Sewer Sys Eval	540,000
East Fram Sewer	2,708,500
Automated Meter	1,282,950
Wastewater Pump	8,009,800
Herbert St Sewer	1,373,250
Other (82 individual projects)	<u>12,254,858</u>
Total	\$ <u><u>55,758,356</u></u>

D. Overlapping Debt

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

<u>Related Entity</u>	<u>Principal</u>		<u>Town's Estimated Share</u>
MWRA - Water	\$ 1,836,833	3.72%	\$ 68,330
MWRA - Sewer	3,584,248	2.90%	<u>103,943</u>
			\$ <u><u>172,273</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, 2007 (in thousands):

Equalized valuation - January 1, 2006		\$	<u>9,322,116</u>
Debt limit - 5% of equalized valuation		\$	466,106
Total debt outstanding	63,722		
Less: debt exempt from limit	<u>(37,668)</u>		<u>26,054</u>
Legal Debt Margin		\$	<u>440,052</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, 2007, 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, 2007, the following changes occurred in long-term liabilities (in thousands):

	Total Balance July 1, 2006	Additions	Reductions	Total Balance June 30, 2007	Less Current Portion	Equals Long-Term Portion June 30, 2007
<u>Governmental Activities</u>						
Bonds payable	\$ 53,244	\$ -	\$ (5,681)	\$ 47,563	\$ 5,569	\$ 41,994
Accrued employee benefits	2,837	551	(142)	3,246	2,163	1,083
Capital leases	262	-	(179)	83	83	-
Totals	<u>\$ 56,343</u>	<u>\$ 551</u>	<u>\$ (6,002)</u>	<u>\$ 50,892</u>	<u>\$ 7,815</u>	<u>\$ 43,077</u>
	Total Balance July 1, 2006	Additions	Reductions	Total Balance June 30, 2007	Less Current Portion	Equals Long-Term Portion June 30, 2007
<u>Business-Type Activities</u>						
Bonds payable	\$ 17,940	\$ -	\$ (1,781)	\$ 16,159	\$ 1,722	\$ 14,437
Accrued employee benefits	103	14	(5)	112	108	4
Other liabilities	130	-	(17)	113	16	97
Totals	<u>\$ 18,173</u>	<u>\$ 14</u>	<u>\$ (1,803)</u>	<u>\$ 16,384</u>	<u>\$ 1,846</u>	<u>\$ 14,538</u>

15. Restricted Net Assets

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

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

16. Reserves and Designations of Fund Balance

“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, 2007:

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.

17. 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 over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the “snow and ice” appropriation. All such overexpenditures, however, must be funded in the subsequent year’s tax rate.

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 statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 2,669,141
Teacher pay deferral	795,830
Tax refund estimate	<u>2,735,314</u>
Statutory (UMAS) Balance	<u>\$ 6,200,285</u>

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 poten-

tial 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

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2006 was not available.

20. Contributory Retirement System

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, 2006:

Retirees and beneficiaries receiving benefits	799
Terminated plan members entitled to but not yet receiving benefits	57
Active plan members	<u>1,317</u>
Total	<u><u>2,173</u></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).

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 in accordance with PERAC requirements.

C. 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.

In fiscal year 2007, the Commonwealth of Massachusetts contributed \$ 16,897,289 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, 2007 are as follows:

	<u>Health Coverage</u>
Claims liability, July 1, 2006	\$ 2,031,322
Claims incurred/recognized in fiscal year 2007	36,101,483
Claims paid in fiscal year 2007	<u>(34,320,427)</u>
Claims liability, June 30, 2007	<u>\$ 3,812,378</u>

22. Risk Management

The government 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.

TOWN OF FRAMINGHAM, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Schedules of Funding Progress and Employer Contributions

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

Schedule of Funding Progress (dollar amounts in thousands):

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 Percentage of Covered Payroll [(b - a)/c]
1/01/91	\$ 40,645	\$ 92,433	\$ 51,788	44.0%	\$ 27,351	189%
1/01/95	\$ 62,360	\$ 122,220	\$ 59,860	51.0%	\$ 29,168	205%
1/01/98	\$ 105,941	\$ 156,983	\$ 51,042	67.5%	\$ 33,120	154%
1/01/00	\$ 147,572	\$ 181,149	\$ 33,577	81.5%	\$ 39,871	84%
1/01/02	\$ 142,893	\$ 206,810	\$ 63,917	69.1%	\$ 42,132	152%
1/01/04	\$ 148,125	\$ 220,001	\$ 71,876	67.3%	\$ 41,223	174%
1/01/06	\$ 157,611	\$ 241,752	\$ 84,141	65.2%	\$ 45,439	185%

Information is only provided for those years in which an actuarial valuation or actuarial update was performed.

Schedule of Employer Contributions (Town share only):

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1993	\$ 5,378,958	100%
1994	5,663,861	100%
1995	6,805,493	100%
1996	6,195,869	100%
1997	6,449,439	100%
1998	6,655,700	100%
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%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	January 1, 2006
Actuarial cost method	Individual entry age normal
Amortization method	4.5% increasing
Remaining amortization period	22 years
Asset valuation method	5 year smoothing
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75 - 5.25%
Cost of living adjustments	3% of \$ 12,000 per year of retirement income (included in January 1, 1998 figures)

See Independent Auditors' Report.