

FINANCIAL MANAGEMENT SERVICES

FINANCE COMMITTEE

During 2008, the Finance Committee was chaired by Allan Tosti assisted by vice chairs Richard C. Fanning, Alan Jones, and Charles T. Foskett. Peter B. Howard served as secretary. The FinCom has twenty-one positions, one for each precinct. The appointing authority (Moderator, Trust Fund Commissioners Chair, FinCom Chair) acted to reappoint all members whose terms had been completed and to fill all but one vacant position.

In January, the FinCom began its yearly effort to develop a comprehensive balanced budget recommendation for the Annual Town Meeting, which begins in April. The budget of each department was reviewed with the department head by one of the subcommittees. The school budget subcommittee attended School Committee meetings in order to gain an understanding of the school budget. Hearings were held on all Warrant Articles requiring an appropriation or having a financial impact. Twenty-four full committee meetings were held which, when combined with numerous subcommittee meetings, made for a busy winter schedule.

The FinCom's report was distributed at the first session of the annual Town Meeting. In addition to recommending a budget for each department, the report recommended a vote on thirty-four articles. As in previous years, this year's report contained additional information of interest to Town Meeting members including a one page revenue and appropriation summary for FY2009, the five year revenue and expenditure plan with a two year projection, details on the Town's solid waste program, and a discussion of the Town's retirement health care (OPEB) liability.

As the table in the committee's report showed, the Town has, so far, been able to follow the five-year plan which was set up as part of the override vote in 2005. The FY2009 budget voted by Town Meeting for the fourth year of the plan was no exception. In fact, some of the override funds were projected to last into the sixth year. As the year wore on, however, the nation wide real estate losses and resulting recession began to affect state and local revenues. State leaders have taken steps to reduce local aid (both in FY2009 and FY2010) which will make the final year of the plan difficult.

The Finance Committee also continued to monitor other ongoing activities that could have a large financial impact through regular reports by the responsible Town officials. The Superintendent of Schools again provided a detailed budget description document for the operating budget as well as updates on the school renovation projects. For the first time in many years the Minuteman Tech assessment decreased. This was in part as a result of the new superintendent's reorganization efforts. Although the five year plan, funded largely by

the six million override in 2005, was a big step toward stabilizing the Town's finances, long term financial issues remain. One crucial issue is the level of State aid. The five year plan assumes that State aid will gradually increase. Due to the current recession, this will not happen and Arlington will be one of very few municipalities in the State to fail to reach its FY2002 local aid levels. Other ongoing issues include funding for the final round of school renovations, the renovation of the Town's fire stations, the increasing costs of health insurance and pensions, and funding the liability for Town employee retiree health insurance. The Finance Committee will continue to work with other Town officials and citizens to deal with these issues and will keep the Town Meeting informed.

OFFICE OF THE TREASURER & COLLECTOR OF TAXES

Mission Statement

The Office of Treasurer & Collector of Taxes is responsible for the collecting and custodianship of all funds and receipts belonging to the Town of Arlington.



Treasurer & Collector of Taxes, Stephen J. Gilligan

Program Description

The Treasurer/Collectors office is responsible for the proper handling and management of all monies belonging to the Town, including the following:

Responsible for the billing and collecting all Real Estate, Personal Property, Motor Vehicle Excise, Water & Sewer accounts, and Town and School Department(s) receivables. Payments are received directly in the Treasurer's Office, through the mails and online payments.

Receive and reconcile all deposits from all departments and Authorities that charge fees and/or receive revenue. Supports and assists all departments in the collection of delinquent accounts. Effectuate School, Recreation, and Human Services deposits of receipts directly to our depository bank, followed by mandatory reconciliation reporting.

FINANCIAL MANAGEMENT SERVICES

Responsible for Investment of Town revenues, including the General Fund up to \$107 million, Trust Funds to \$18.5 million.

Determine cash flow to meet vendor and payroll warrants.

Supervise and direct all short and long-term borrowings. Strategic Goal to maintain Triple-A (AAA) Bond Rating with Standard & Poor and improve upon the Aa2 rating received from Moody's Investors Service.

Manage the relationship with finance professionals providing custodial, investment, and banking services to the Town.

Administer & manage all phases of the John J. Bilafer-Arlington Citizens Scholarship Fund/Dollars For Scholars tax check-off scholarship program. Success of the Town's scholarship program continues, noting that Citizens can establish dedicated scholarship programs with the minimum contribution of \$10,000.

Provide quality customer service to all Town residents in the performance of the above-described duties.

Budget Statement/Future Outlook

The Treasurer's office reorganized in 2008 following retirement of two staff members and consolidated staff positions. A current vacancy will not be filled.

Given the current economic situation, interest income revenue will significantly decline.

2009 Objectives

Continue the work being done to establish an in-house scholarship database to assist with the management and awarding of scholarships.

Finalizing the implementing of the Treasurer website to accommodate payments online by adding remitting payment of parking violations.

The Treasurer's office continues to become more technologically advanced, working to ensure the data processing and information technology needs are being met, in concert with the IT Department in meeting critical drivers.

Continue review of department functions to gain efficiencies and streamline processes.

Continue to fine-tune our new lock-box system, taking advantage of new technologies in the banking industry and streamlining our workload.

Major Accomplishments for FY2008

Attained a top rating of Triple-A (AAA) from Standard & Poor's rating agency, which applies to all money to be borrowed by the Town to finance major capital projects. We join a group of less than 20 communities attaining this highest designation in Massachusetts.

Continue to attain a high rating of Aa2 from Moody's credit rating service.

Treasurer's Office continues to operate the lowest outstanding/delinquent real estate and personal property taxes of any community in the Commonwealth, resulting in attaining the best possible interest earnings, as well as saving on short-term borrowing.

Continue issue all bills for Real Estate, Motor Excise, and Water & Sewer accurately and on time.

Issued request to financial services providers for responses to provide for investment advisor and investment manager services. Selecting an investment advisor should occur Spring 2009

Performance / Workload Indicators

Issuing, processing, and collecting 60,000 Real Estate initial bills, 40,000 Motor Excise initial bills, and 25,000 Water & Sewer initial bills, plus subsequent 12,300 combined Demand Bills and Delinquency Notices, during the fiscal year. All bills mailed on-time meeting state legal mandates.

Advertise delinquent Real Estate taxes within the same fiscal year.

Lien all delinquent water accounts onto real estate bills annually. Total annual amounts: FY03 - \$72,257, FY04 - \$69,766, FY05 - \$51,127, FY06 - \$68,675, FY07 - \$104,758 and FY08 - 126, 419. Utilization of management best practices enables Treasurers office to reduce these amounts to less than .02% of Water & Sewer amounts committed.

Preparation material for Town audit.

Office of Treasurer & Collector of Taxes					
Performance Metrics					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Real Estate Bills Processed	60,000	60,000	60,000	60,000	60,000
Motor Excise Bills Processed	40,000	40,000	40,000	40,000	40,000
Water & Sewer Bills Processed	25,000	25,000	25,000	25,000	25,000
Liens - Revenue from Water & Sewer Delinquencies	\$69,766	\$51,127	\$68,675	\$104,758	\$104,758
Lien Certificates Processed	2,210	1,451	1,323	2,211	1,170
Revenue from Liens	\$55,250	\$36,500	\$33,075	\$39,600	\$29,250
Deputy Tax Collection Program - Revenues	\$104,763	\$118,529	\$105,732	\$115,573	\$133,146

FINANCIAL MANAGEMENT SERVICES

COMPTROLLER/TELEPHONE

The Comptroller's Office is responsible for the Town's books of account and financial records, verifying appropriations for all purchase orders, processing invoices for payment, approval of all payrolls and other warrants, balancing monthly appropriation reports, and other financial reporting as governed by Federal and State governments. The Comptroller is responsible for the direct management and supervision of the Telephone department.

The Telephone department is responsible for the operations of the Town and School phone system, including maintaining the two PBX's and voicemail systems.

In 2008 the major accomplishments included upgrading the telephone voicemail system, processing 99,138 general ledger entries, 5,381 purchase orders and 1,007 accounts payable batches.

During 2009 the departments will review the feasibility of a consolidated town school financial operation and research into implementing a network based voice over IP phone system.

BOARD OF ASSESSORS

At the annual election held in April of 2008, Kevin P. Feeley, Esquire, was re-elected for a three-year term to the Board of Assessors. At the organizational meeting of the Board of Assessors, Mary Winstanley O'Connor, Esquire, was elected Chairman and James F. Doherty, MAA, was elected Vice Chairman.

In 2008, the Board of Assessors began their re-inspection program to meet the requirements of the Department of Revenue and complying with Massachusetts General Law (MGL).

The Board of Assessors committed 15,329 real estate and personal property tax bills to the Tax Collector for collection for Fiscal Year 2009. These bills raised a total of \$80,946,006 in property and personal property taxes. The total assessed value of all taxable real estate and personal property for Fiscal Year 2009 was \$6,790,772,343, which resulted in a tax rate of \$11.92 per thousand dollars of assessed value. The board also committed over 40,000 automobile excise tax bills for collection of an estimated income of \$3,800,000.

The Board would like to thank all taxpayers for their cooperation and the Assessing Office staff for their continued support and for a job well done in 2008.

Tax Abatement Overlay

State law requires that the Assessors put aside funds from each tax levy in a reserve that is called an Overlay. This account is established in anticipation that a certain percentage of the tax levy may end up being abated. Individual tax abatements are paid out of this fund. The final amount of the overlay account is determined by the Assessors and added to the tax rate without appropriation, and is usually set at anywhere from 1% to 2.5% of the tax levy. In revaluation years, which occur every three years, the overlay account is usually set at a higher amount in anticipation of an increased number of abatements. FY2009, a non revaluation year, the overlay account is set at \$566,908. Any surplus left in an overlay account is appropriated by Town Meeting in much the same manner as free cash. Below is a chart showing the disposition of Overlay funds for the last three years. Prior to FY2006, the reserve balance from all prior fiscal years is \$132,799.

FINANCIAL MANAGEMENT SERVICES

ASSESSMENT DATA

Tax Abatement Overlay Funds			
	FY2006	FY2007	FY2008
Overlay Amount	\$ 902,675	\$ 1,194,924	\$ 651,772
Abatements & Exemptions To-Date	\$ 413,556	\$ 380,309	\$ 472,052
Declared Surplus to General Fund	\$ 400,000	\$ 700,000	\$ 300,000
Reserved for Additional Liability	\$ 89,119	\$ 114,615	\$ 179,720

VALUATION AND TAX LEVY			
Fiscal Year	Total Assessed Valuation	Tax Levy	Tax Rate*
2009	\$6,790,772,343	\$80,946,006	\$11.92
2008	\$6,883,264,284	\$78,813,376	\$11.45
2007	\$7,011,721,520	\$76,778,350	\$10.95
2006	\$6,483,756,733	\$73,578,994	\$11.34
2005	\$6,007,309,836	\$65,719,969	\$10.94
2004	\$5,990,614,666	\$63,740,140	\$10.64
2003	\$4,500,135,559	\$61,246,845	\$13.61
2002	\$4,266,984,229	\$59,097,731	\$13.85
2001	\$4,239,775,439	\$55,838,267	\$13.17
2000	\$3,063,254,230	\$54,097,069	\$17.66
1999	\$3,504,316,820	\$52,443,515	\$17.17
1998	\$2,955,114,603	\$49,439,067	\$16.73

* Tax rate expressed in per thousand dollars of assessed value

PERCENT OF TAX LEVY BY CLASS					
CLASS	TYPE	FISCAL YEAR			
		2009	2008	2007	2006
I	RESIDENTIAL	94.3933	94.3933	94.6310	94.067
II	OPEN SPACE	.000	.000	.000	.000
III	COMMERCIAL	4.4889	4.2688	4.1305	4.496
IV	INDUSTRIAL	.3208	.3158	.3107	.313
V	PERSONAL PROPERTY	1.2071	1.0221	.9278	1.244
TOTAL		100.00	100.00	100.00	100.00

FINANCIAL MANAGEMENT SERVICES

ASSESSMENT DATA

TAX RATE COMPONENTS FY2004 - FY2009						
	2004	2005	2006	2007	2008	2009
Levy Base	\$9.13	\$9.44	\$9.03	\$9.54	\$10.09	\$10.58
2 1/2%	\$0.23	\$0.24	\$0.23	\$0.24	\$0.25	\$0.26
Growth	\$0.11	\$0.08	\$0.13	\$0.13	\$0.09	\$0.09
Override			\$0.93	\$0.00	\$0.00	\$0.00
Water/Sewer Debt Exclusion	\$0.84	\$0.85	\$0.84	\$0.80	\$0.81	\$0.82
School Debt Exclusion	\$0.33	\$0.34	\$0.18	\$0.25	\$0.21	\$0.16
Tax Rate*	\$10.64	\$10.94	\$11.34	\$10.95	\$11.45	\$11.92

*Tax Rate =((Amount To Be Raised)/(Total Taxable Assessed Value))*1000

Details of Tax Rate Calculation						
	2004	2005	2006	2007	2008	2009
Max Levy Prior Fiscal Year	\$54,703,728	\$56,720,544	\$58,597,089	\$66,906,029	\$69,465,927	\$71,842,588
2.50%	\$1,367,593	\$1,418,014	\$1,464,927	\$1,672,651	\$1,736,648	\$1,796,065
Growth	\$649,223	\$458,531	\$844,013	\$887,247	\$640,013	\$642,912
Override			\$6,000,000	\$0	\$0	\$0
Maximum Levy	\$56,720,544	\$58,597,089	\$66,906,029	\$69,465,927	\$71,842,588	\$74,281,565
Levy Increase %	3.69%	3.31%	14.18%	3.83%	3.42%	3.39%
Levy Increase \$	\$2,016,816	\$1,876,544	\$8,308,941	\$2,559,897	\$2,376,661	\$2,438,977
Water/Sewer Debt Exclusion	\$5,033,997	\$5,103,729	\$5,475,486	\$5,593,112	\$5,593,112	\$5,593,112
Debt Exclusion	\$2,000,153	\$2,056,781	\$1,197,479	\$1,755,952	\$1,436,024	\$1,119,201
Max to be Raised	\$63,754,694	\$65,757,599	\$73,578,994	\$76,814,991	\$78,871,724	\$80,993,878
Actual Raised	\$63,740,140	\$65,719,969	\$73,525,801	\$76,778,350	\$78,813,376	\$80,946,006
Excess Levy	\$14,554	\$37,630	\$53,193	\$36,641	\$58,348	\$47,872
Total Taxable Assessed Value	\$5,990,614,666	\$6,007,309,836	\$6,483,756,733	\$7,011,721,520	\$6,883,264,284	\$6,790,772,343
Total Assessed Value Increase	33.12%	0.28%	7.93%	8.14%	-1.83%	-1.34%
Tax Rate	\$10.64	\$10.94	\$11.34	\$10.95	\$11.45	\$11.92
Penny on Tax Rate	\$59,906	\$60,073	\$64,838	\$70,117	\$68,833	\$67,908
Ave Assessed Val - Single Family	\$414,125	\$415,167	\$444,515	\$486,431	\$475,289	\$465,952
Ave Taxes Single Family	\$4,406	\$4,542	\$5,041	\$5,326	\$5,442	\$5,554

* All numbers subject to rounding and final DOR Certification

FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT SERVICES

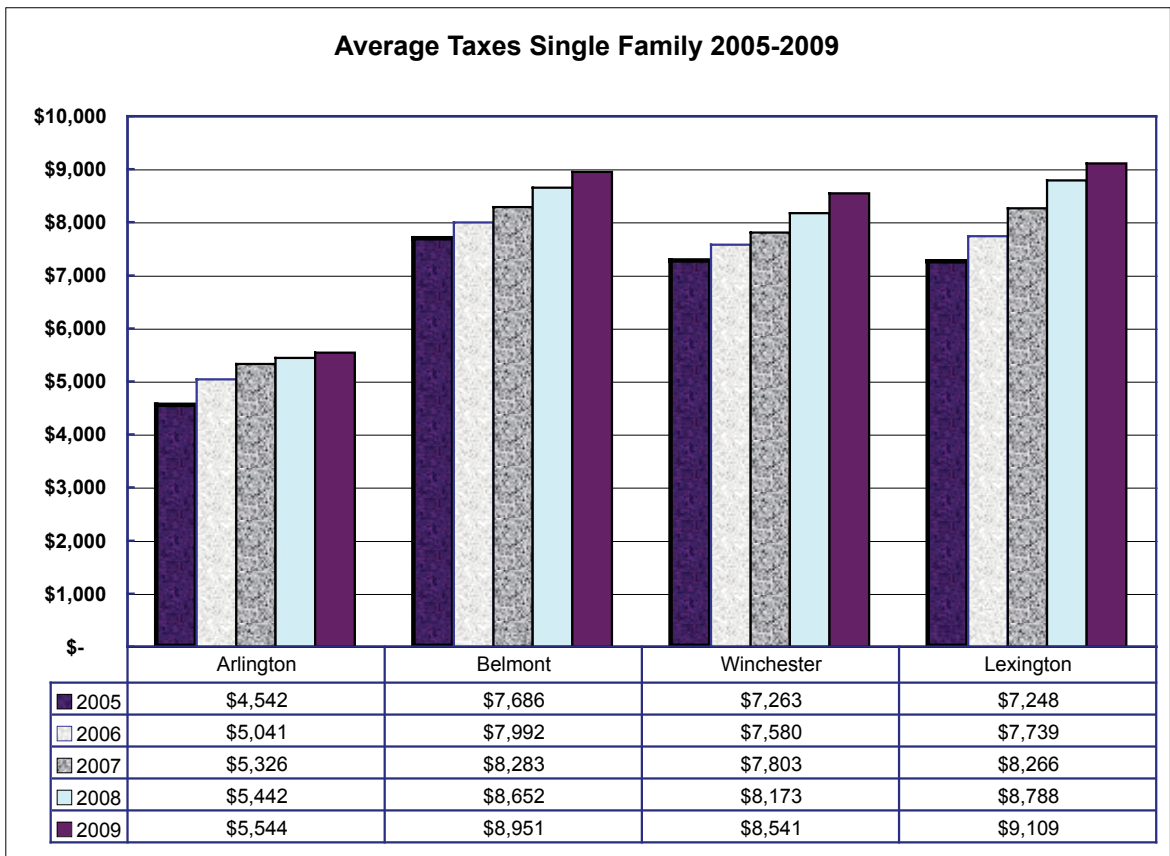
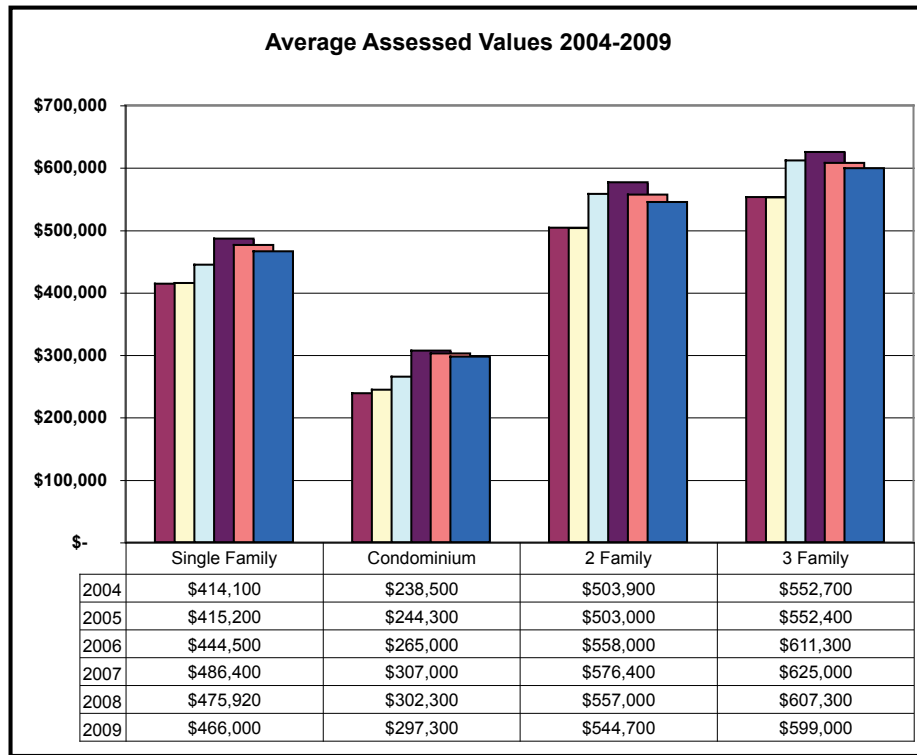
ASSESSMENT DATA

Summary of Revaluation by State Class Code FY2009 VS FY2008					
Property Type	FY 2009		FY 2008		2009 VS 2008
	Parcels	Assessed Value	Parcels	Assessed Value	%(+/-)
Residential		6,382,182,512		6,497,342,842	-1.77%
Open Space		0		0.00	
Commercial		304,834,211		293,832,142	3.74%
Industrial		21,787,300		21,739,500	0.22%
Total Real Est	14594	6,708,804,023	14,542	6,812,914,484	-1.53%
Personal Prop	425	81,968,320	452	70,349,800	16.52%
Total Real & PP	15019	6,790,772,343	14,994	6,883,264,284	-1.34%
Exempt	333	422,236,000	333	419,079,000	
Grand Total	15352	7,213,008,343	15,327	7,302,343,284	

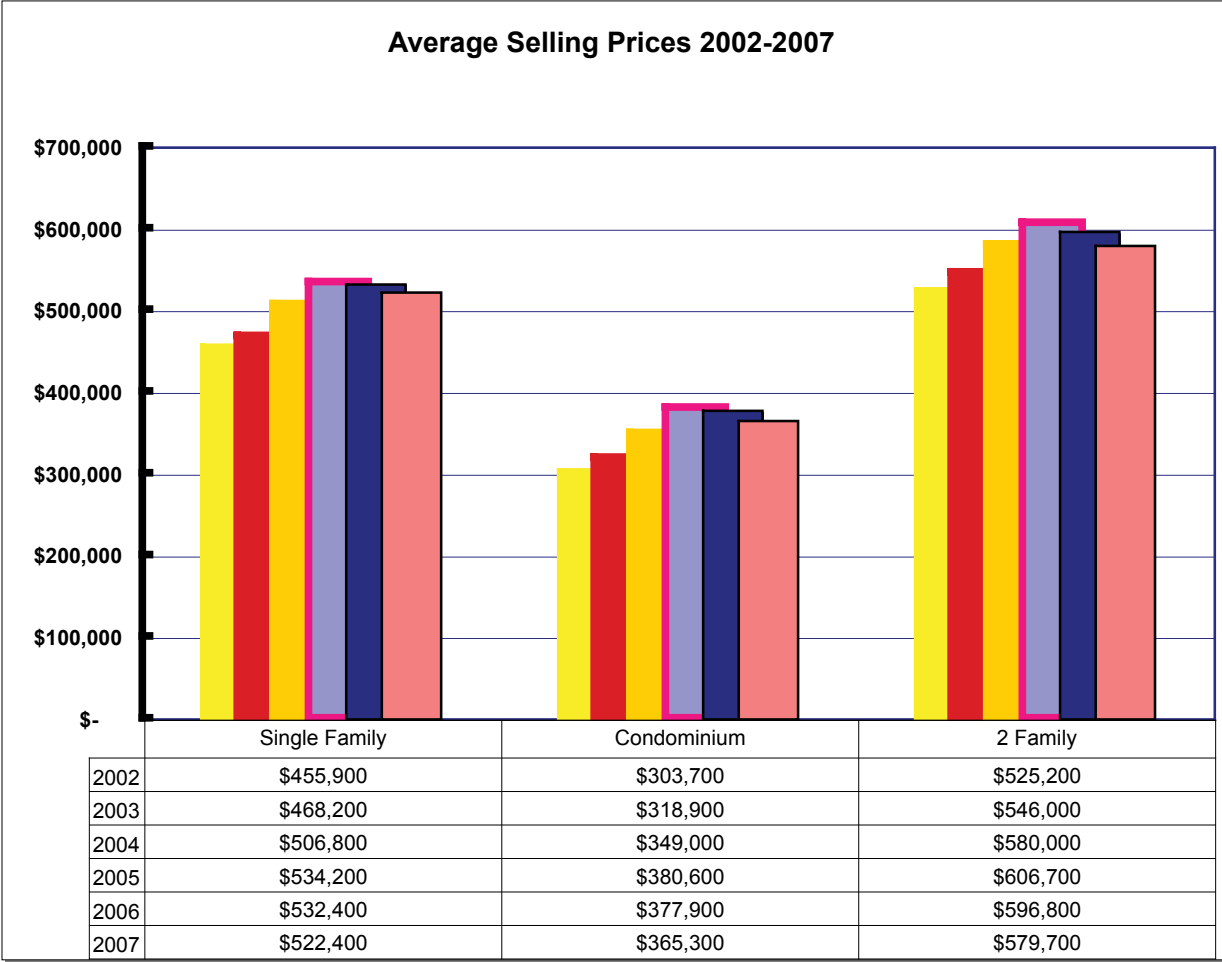
Summary Details									
Property Type	FY 2009					FY 2008			2009 VS 2008
	Parcels	FY2009 Assessed Value	Ave Assessed Value	Parcels (+/-)	Ave Assessed Value (+/-)	Parcels	FY2008 Assessed Value	Ave Assessed Value	Percent (+/-)
Single Family	7,967	3,712,241,500	465,952	7	-9,338	7,960	3,783,307,400	475,290	-1.88%
Condominium	2,940	874,094,700	297,311	82	-4,997	2,858	863,996,400	302,308	1.17%
Misc	12	8,953,100	746,092	-1	-21,724	13	9,981,600	767,815	-10.30%
2 Family	2,474	1,347,675,260	544,735	-26	-12,239	2,500	1,392,434,960	556,974	-3.21%
3 Family	216	129,375,300	598,960	-5	-8,352	221	134,216,000	607,312	-3.61%
Apartments	147	249,085,300	1,694,458	0	176	147	249,059,400	1,694,282	0.01%
Res Land	343	25,103,200	73,187	-7	-2,575	350	26,516,800	75,762	-5.33%
Open Space	0								
Commercial	388	267,258,500	688,811	4	-2,478	384	265,454,900	691,289	0.68%
Industrial	23	21,787,300	947,274	0	2,078	23	21,739,500	945,196	0.22%
Ch Land	0	0	0	0	0	0	0	0	
CH 61A Land	0	0	0	0	0	0	0	0	
CH 61B Land	2	4,017,163	2,008,582	0	1,871,170	2	274,824	137,412	1361.72%
Mixed Use(Res)	82	35,654,152	844,057	-2	59,144	84	37,830,282	784,913	4.97%
Mixed Use(Com)	0	33,558,548		0			28,102,418		
Per Prop 501	256	1,527,270	5,966	-18	-330	274	1,724,950	6,295	-11.46%
Per Prop 502	153	4,455,940	29,124	-9	4,915	162	3,921,780	24,209	13.62%
Per Prop 503	0	0		0		0	0		
Per Prop 504,550-552	2	43,097,310	21,548,655	0	738,470	2	41,620,370	20,810,185	3.55%
Per Prop 505	7	23,125,100	3,303,586	-5	1,858,561	12	17,340,300	1,445,025	33.36%
Per Prop 506	2	6,989,900	3,494,950	0	623,750	2	5,742,400	2,871,200	21.72%
Per Prop 508	5	2,772,800	554,560						
TOTAL	15,019	6,790,772,343				14,994	6,883,264,284		-1.34%

FINANCIAL MANAGEMENT SERVICES

ASSESSMENT DATA



FINANCIAL MANAGEMENT SERVICES



FINANCIAL MANAGEMENT SERVICES

Recapitulation of the Fiscal Year 2009 Tax Rate \$11.92 / \$1,000 of Assessed Value

DEBITS

Appropriations	\$119,785,714
Court Judgments	\$66,500
Cherry Sheet Offset	\$79,977
Revenue Deficits	\$108,529
State and County Charges	\$2,664,742
Snow and Ice Deficit	\$798,967
Allowance for Abatements & Exemptions	\$566,909

Total Debits	\$124,071,338
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CREDITS

State Receipts	\$19,029,007
Local Receipts	\$20,330,349
Free Cash	\$2,191,622
Other Available Funds	\$1,074,354
Overlay Surplus	\$500,000

Total Credits	\$43,125,332
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Amount to be Raised by Taxation	\$80,946,006
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Town Property Valuation	\$6,790,772,343
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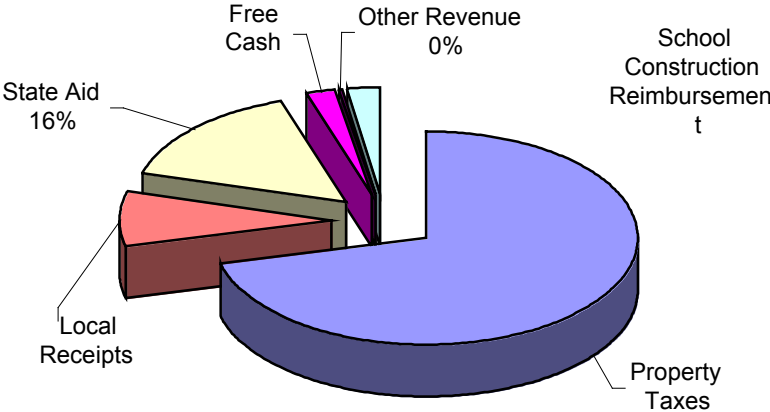
Setting the Tax Rate: Divide the **Amount to be Raised by Taxation** by the **Town Property Valuation**, then multiply by 1,000

$$(\$80,946,006 \div \$6,790,772,343) \times 1,000 = \$11.92$$

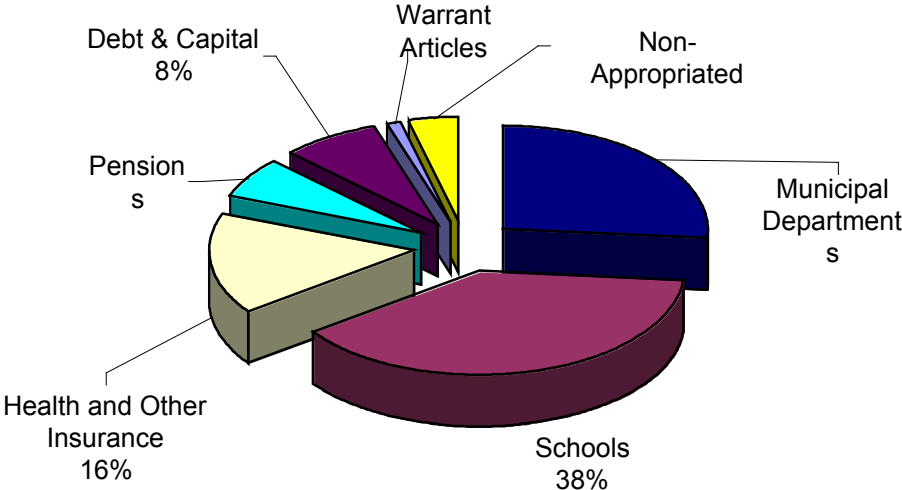
Source: Tax Rate Recapitulation Sheet

FINANCIAL MANAGEMENT SERVICES

REVENUES



EXPENDITURES



FINANCIAL MANAGEMENT SERVICES

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen Town of Arlington, 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 Arlington, Massachusetts, as of and for the fiscal year ended June 30, 2008 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2007), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Arlington, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and **the standards applicable to financial audits contained in *Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Arlington, Massachusetts, as of June 30, 2008 (except for the Arlington Contributory Retirement System which is as of December 31, 2007), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008, 2008, on our consideration of the Town of Arlington, Massachusetts' internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



December 18, 2008

FINANCIAL MANAGEMENT SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Arlington, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Arlington's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position 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 that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, property and natural resources, community development, human services, library, culture and recreation, claims and judgments, and interest. The business-type activities include the activities of the water and sewer department, youth services, Council on Aging, Veterans' Rink and the recreation department.

Fund financial statements.

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

Governmental funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows 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.

FINANCIAL MANAGEMENT SERVICES

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 Arlington adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. The budgetary comparison schedule is reported following the notes to the basic financial statements as required supplementary information.

Proprietary funds.

The Town maintains one type of propriety fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer, youth services, Council on Aging, Veterans' Rink and recreation department activities.

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 statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

Notes to the basic 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.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For governmental activities, assets exceeded liabilities by \$123.3 million at the close of FY 2008.

The largest portion of the Town's net assets, \$89.6 million, (73%), reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 net assets \$10.2 million, (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$23.5 million, (19%) may be used to meet the government's ongoing obligations to citizens and creditors.

FINANCIAL MANAGEMENT SERVICES

Governmental Activities							
				Balance at	Balance at		
				June 30,	June 30,	Increase	
				2008	2007	(Decrease)	
Assets:							
	Current assets.....	\$	56,767,147	\$	62,850,507	\$	(6,083,360)
	Noncurrent assets (excluding capital).....		20,920,578		24,417,976		(3,497,398)
	Capital assets.....		117,137,287		116,821,063		316,224
	Total assets.....		194,825,012		204,089,546		(9,264,534)
Liabilities:							
	Current liabilities (excluding debt).....		13,732,013		12,581,154		1,150,859
	Noncurrent liabilities (excluding debt).....		2,597,274		2,359,066		238,208
	Current debt.....		5,502,000		17,650,000		(12,148,000)
	Noncurrent debt.....		49,720,000		45,220,000		4,500,000
	Total liabilities.....		71,551,287		77,810,220		(6,258,933)
Net Assets:							
	Capital assets net of related debt.....		89,599,804		85,723,664		3,876,140
	Restricted.....		10,210,306		12,566,274		(2,355,968)
	Unrestricted.....		23,463,615		27,989,388		(4,525,773)
	Total net assets.....	\$	123,273,725	\$	126,279,326	\$	(3,005,601)

At the end of the current fiscal year, the Town 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. The same situation held true for the prior fiscal year.

The governmental activities net assets decreased by \$3 million during the current fiscal year. This is mainly due to a decrease in the fair market value of investments of approximately \$1.6 million, and an approximately \$1 million net decrease in the operating activity of the Town's special revenue and trust funds, which represents the timing of receipts and expenditures of funds on Town programs.

FINANCIAL MANAGEMENT SERVICES

Governmental Activities	June 30, 2008	June 30, 2007
Program revenues:		
Charges for services.....	\$ 8,077,564	\$ 7,577,075
Operating grants and contributions.....	26,472,486	24,693,407
Capital grants and contributions.....	-	14,788,539
General revenues:		
Real estate and personal property taxes.....	78,126,629	76,116,694
Tax liens.....	219,611	234,052
Motor vehicle and other excise taxes.....	3,951,799	4,001,015
Hotel/motel tax.....	123,522	130,278
Penalties and interest on taxes.....	186,195	157,047
Nonrestricted grants and contributions.....	9,756,787	9,619,012
Unrestricted investment income.....	(250,463)	3,979,911
Gain on sale of capital assets.....	-	210,861
Miscellaneous revenues.....	23,969	7,710
Total revenues.....	126,688,099	141,515,601
Expenses:		
General government.....	9,674,926	9,142,084
Public safety.....	19,974,263	20,103,284
Education.....	70,688,522	68,850,003
Public works.....	9,788,561	8,554,635
Property and natural resources.....	2,624,450	2,991,773
Community and economic development.....	4,169,059	4,897,672
Human services.....	1,294,867	1,298,741
Library.....	2,916,575	2,755,489
Culture and recreation.....	216,814	284,753
Claims and judgments.....	106,500	96,000
Interest.....	2,217,666	2,075,794
Total expenses.....	123,672,203	121,050,228
Transfers.....	(6,021,497)	(5,959,403)
Change in net assets.....	\$ (3,005,601)	\$ 14,505,970

FINANCIAL MANAGEMENT SERVICES

Business-Type Activities		Balance at	Balance at
		June 30,	June 30,
		2008	2007
Assets:			
Current assets.....	\$	9,997,123	\$ 9,400,144
Capital assets.....		11,166,218	10,054,655
Total assets.....		21,163,341	19,454,799
Liabilities:			
Current liabilities (excluding debt).....		360,124	244,403
Noncurrent liabilities (excluding debt).....		39,000	14,000
Current debt.....		624,060	553,143
Noncurrent debt.....		3,412,247	3,681,722
Total liabilities.....		4,435,431	4,493,268
Net Assets:			
Capital assets net of related debt.....		7,129,911	8,126,486
Unrestricted.....		9,597,999	6,835,045
Total net assets.....	\$	16,727,910	\$ 14,961,531

There was a net increase of \$1.8 million in net assets reported in connection with the Town's business-type activities. Additionally, the water and sewer enterprise fund was subsidized by the general fund in fiscal year 2008 by approximately \$5.6 million to offset a portion of the costs associated with the repayment of debt to the Massachusetts Water Resources Authority. The majority of the increase (\$1.7 million) is a result of the operating activities of the water and sewer enterprise fund, which includes the subsidy from the general fund.

Business-Type Activities		June 30,	June 30,
		2008	2007
Program revenues:			
Charges for services.....	\$	10,917,691	\$ 9,022,726
Operating grants and contributions.....		164,234	719,860
General revenues:			
Unrestricted investment income.....		93,272	128,203
Total revenues.....		11,175,197	9,870,789
Expenses:			
Water and Sewer.....		13,863,832	13,543,859
Youth Services.....		471,096	436,494
Council on Aging.....		95,907	100,437
Veterans' Rink.....		452,795	482,505
Recreation.....		546,685	602,341
Total expenses.....		15,430,315	15,165,636
Transfers.....		6,021,497	5,959,403
Change in net assets.....	\$	1,766,379	\$ 664,556

FINANCIAL MANAGEMENT SERVICES

Financial Analysis of the Government's Funds

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

Governmental funds.

The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *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, governmental funds reported combined ending fund balances of \$39 million, an increase of \$3.3 million from the prior year. Of this increase, \$5 million was the result of the activity in the Town's capital borrowing fund, which is reported as a major fund. During fiscal year 2008, the Town recognized \$9.7 million in bond proceeds in this major fund which represents long-term borrowing used to finance various capital projects. Current expenditures in this fund totaled \$4.9 million. The largest of the current projects are related to the Park Circle fire station project and the Reeds Brook park project. These two major Town projects are more fully described under the Capital Asset and Debt Administration section of this analysis.

Of the remainder of the change in fund balance, a \$461,000 increase is in the result of operations of the general fund, and a \$2.2 million decrease relates to activities in other non-major governmental funds, which recognized \$1.3 million in transfers in, \$1.1 million in transfers out, \$12.6 million in revenues, \$15.1 million in expenditures, and \$160,000 in bond premiums. Approximately \$1.2 million of the decrease is in the Town's nonmajor special revenue funds, and includes a \$680,000 transfer from the Tip Fee Stabilization Fund, and a \$150,000 transfer from the Sale of Lots and Graves Fund, both voted to fund the operating budget. Another \$859,000 of the decrease took place in the Town's permanent funds, and includes net decreases in the value of the trust fund investments of approximately \$700,000. The remaining decrease in the nonmajor funds includes a decrease in the nonmajor capital projects of approximately \$274,000, which is the net result of capital expenditures of approximately \$1.06 million, and net transfers in from the general fund of approximately \$786,000.

The general fund budgeted to use \$1.5 million of reserves (\$955,000 in available funds "free cash" and \$500,000 in prior reserves released by the board of assessors "overlay surplus") to balance the fiscal year 2008 budget. The actual result of operations collected approximately \$800,000 more than budgeted and departmental budgets expended \$186,000 more than budgeted. Consequently, on a budgetary (cash) basis, the general fund did not experience a material increase or decrease.

The Town also maintains a stabilization fund and a tip fee stabilization fund, both classified within the nonmajor governmental funds. The stabilization fund has a year end balance of \$2.5 million which represents 2.3% of general fund expenditures. This fund may be used for general or capital purposes upon Town Meeting approval. Please refer to Note 9 for additional information on the Town's stabilization fund. The tip fee stabilization fund has a year end balance of \$3.2 million, which represents 2.9% of general fund expenditures. Please refer to Note 10 for additional information on the Town's tip fee stabilization fund.

General Fund Budgetary Highlights

Departmental and other revenues were greater than budgeted estimates by approximately \$650,000 which was mainly due to the increase in licenses, fees and fines. Investment income was below budgeted estimates by approximately \$320,000 due to the decreased rates. Public works expenditures exceeded appropriations by approximately \$544,000, due to expenditures for snow and ice removal exceeding the appropriation. The Town is allowed to exceed the budget related to snow and ice removal and to raise the difference in the subsequent year's tax levy.

Transfers out exceeded the budget by approximately \$88,000, which reflects tax receipts for the Symmes Property, which in accordance with Chapter 25 of the Acts of 2006, is to be used to satisfy the debt service related to the acquisition of the Symmes Property. The Town did not budget for this transfer in fiscal year 2008.

Other Post Employment Benefits (OPEB)

FINANCIAL MANAGEMENT SERVICES

In 2006 the Arlington Town Meeting formed the Other Post Employment Benefits Committee. The committee's charge is to make recommendations on the potential funding mechanisms for the post employment medical benefits unfunded liability as required in Statement No. 45 of the Governmental Accounting Standards Board.

An actuarial study conducted by Stone Consulting, Inc. indicated that Arlington's total Actuarial Accrued Liability as of January 1, 2008 (at 7.75% discount rate) is \$114,154,885. The Town is required to implement GASB 45 in fiscal year 2009. At the present time, there is no requirement that these liabilities be funded. However, the committee believes that it is prudent fiscal policy to begin funding as soon as possible. To that end, the committee requested the 2005 Town Meeting pass legislation which would set up a trust to hold any funding so appropriated. This legislation was enacted and signed by Governor Romney on December 8, 2005.

In 1997 the Town began capturing revenues to fund the liability. At the time, the town established a policy of appropriating the difference in the non-contributory pension appropriation and \$500,000. The balance at the end of Fiscal Year 2008 in that account is \$2,239,303. At the 2008 Annual Town Meeting an additional \$853,940 was appropriated to that fund. The Town anticipates that these funds will be used to satisfy the first year of our liability.

The committee has been looking at other potential revenue sources to continue funding our outstanding liability. The committee recommended to Town Meeting that the following sources of revenue be earmarked for that purpose:

1. Continue the practice of appropriating the difference in the non contributory pension and \$500,000.
2. Dedicate any revenue received from the Federal Government for Medicare Part "D" subsidy.
3. Dedicate any one-time revenues to this fund – If, in the future the Town has a source of funding that is unexpected and not designated for a specific purpose, the Town should consider dedicating it to this liability. An example of this is the Federal reimbursement of prescription drug costs through Medicare Part "D".
4. Determine the liability associated with the Enterprise funds and charge this amount in future appropriations.

The Town of Arlington is serious about addressing this liability within our financial ability and the OPEB Committee will continue to explore possible funding sources.

Capital Asset and Debt Administration

The Town Manager is responsible for submitting a five-year capital-planning program for all departments to the Board of Selectmen each year. The Capital Planning Committee was created to advise and make recommendations regarding the Capital Plan. Annually the first year of the Capital Plan is submitted to the Town Meeting as the Capital Budget for appropriation. The Capital Plan is reviewed and revised each year to make changes in priorities and to add an additional year to the planning process.

The goal of the Capital Planning Program is to provide a means of planning for the maintenance and/or improvement of the capital assets and infrastructure of the Town of Arlington. To that end, the policy is that approximately 5% of the projected revenue of the town is dedicated to capital expenditures including prior and future debt issuances. Generally this allows for an annual cash expenditure of \$600,000 and a new borrowing of \$1 million. The Town's outstanding long-term debt related to the general government, as of June 30, 2008, was \$48,727,000, for various CIP related projects.

The maintenance of the infrastructure and the capital assets of the Town are of vital importance to the delivery of the quality services that the Town has been known for. To this end, the Capital Planning Committee is dedicated to accomplishing the following objectives:

- To review, plan, and coordinate capital improvements so as to promote a systematic, organized replacement and acquisition schedule
- To insure that, given limited resources, the capital needs of the community are met
- To present a sound financial package so as to stabilize and level out the debt of the Town. It should assure timely planning for the most economical method of financing capital improvements
- To insure wider community participation in the planning of projects and to reduce the pressure to fund a project which may not present as great a need as another project

FINANCIAL MANAGEMENT SERVICES

- To promote a more effective administration and coordination of capital projects to reduce scheduling problems, and conflicting or overlapping projects not only among local departments but also among other local and state agencies and private enterprises such as the gas and electric companies.

In reviewing the requests of the operating departments the committee uses the following criteria for evaluation:

- Imminent threat to the health and safety of citizens/property.
- Maintenance of operations/necessary expenditure. This does not include ordinary maintenance but rather maintaining a current service level through improvement of a capital asset. These may be major expenditures that will avoid costly replacement in the future.
- Requirement of State or Federal Law/regulation.
- Improvement of infrastructure.
- Improvement of productivity.
- Alleviation of an overtaxed/overburdened situation.

The relationship of the project to other Town projects and needs is also considered in the review and prioritization.

The Town is a member of the Massachusetts Water Resources Authority (MWRA), which assesses member communities annually for their proportionate share of the MWRA's debt service. The Town has also adopted Chapter 59 Section 21C Paragraph N of the Massachusetts General Law, which allows for the shifting of the debt service for water and sewer to the tax rate above the limits of Proposition 2 ½. The Town shifted \$5.6 million in fiscal year 2008 from the MWRA assessment to the property taxes. During fiscal year 2008, the Town issued an additional \$354,585 in MWRA sewer bonds.

The Town of Arlington passed a debt exclusion vote to raise the funds necessary to purchase the Symmes Site, home of the former Symmes Hospital, in March 2001. The Town Meeting then formed the broadly representative Symmes Advisory Committee (SAC) to assist with redevelopment plans and to ensure that the plans were consistent with community goals and desires. On January 7, 2002, the Arlington Redevelopment Board (ARB) adopted the Symmes Arlington Conservation and Improvement Project (the Plan) as an urban renewal project in accordance with the procedures and requirements of Massachusetts General Law, chapter 121B. The plan was subsequently approved by the Town Meeting and by the Commonwealth's Department of Housing and Community Development (DHCD). The Town Meeting voted at a Special Town Meeting on January 12, 2002 to appropriate up to \$14,000,000 to purchase and maintain the old Symmes Hospital property until Town Meeting could vote how to utilize the property in the best interest of the Town. The ARB acquired the Site in April 2002. During fiscal year 2004, the Arlington Redevelopment Board issued requests for proposals, and in February, 2004 chose E.A. Fish Associates to purchase and redevelop the property. The terms of the sale have been amended to allow the developer to postpone closing until August, 2007. Beginning in January, 2007, the developer will pay the expenses of the Town for holding the property for the extended time period. The terms of the sale have been revised several times, most significantly as a result of a settlement the developer made with residents who appealed the developer's special permit to construct the residential portion of the project. The property sale was postponed and closed in June 2008. Town Meeting voted to devote all funds, including tax receipts, to repaying the debt on the project. It is now projected that the indebtedness will be repaid completely in 2013. Total net expenditures are expected to be \$12.2 million at the time of closing on the property sale. The site will be redeveloped to accommodate 200 residential units and a medical office building with more than half the land area remaining in open space all according to the urban renewal plan adopted by Town Meeting. Please refer to note 14 for further information on this project.

The Town of Arlington is in the process of renovating/replacing its middle school as well as all of its 7 elementary schools. To date six schools have been completed, and two are in the design stage. Funding for the schools is from debt exclusion and is predicated on a 63% reimbursement from the State's School Building Assistance program which is administered by the Massachusetts School Building Authority (MSBA). Four of the schools have begun receiving the state reimbursement and one received the state's share of the cost subsequent to year end.

During fiscal year 2008, the Town completed construction of the Park Circle fire station. The Town expended \$2.3 million on this project.

FINANCIAL MANAGEMENT SERVICES

The Reed's Brook project is a major renovation of a prior landfill site into a park and playing fields. This project, with a total cost of approximately \$7.5 million, has been funded from Community Development Block Grant, Federal Emergency Management Agency, State highway money and Town appropriations. The playing fields were opened for play in the spring of 2008.

The Town through its water/sewer enterprise funds appropriates money each year for rehabilitation of its infrastructure (water/sewer lines). Also the Town appropriates money in the Capital Plan for roadway construction, which is added to the Chapter 90 money that the Town receives each year from the Commonwealth of Massachusetts.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Arlington'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 the Office of the Comptroller, 869 Massachusetts Avenue, Arlington, Massachusetts 02174.