

TOWN OF ARLINGTON, MASSACHUSETTS

***REPORT ON EXAMINATION OF
GENERAL PURPOSE FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2002

TOWN OF ARLINGTON, MASSACHUSETTS

REPORT ON EXAMINATION OF GENERAL PURPOSE
FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2002

TABLE OF CONTENTS

| | PAGE |
|--|-------------|
| FINANCIAL SECTION | |
| Independent Auditors' Report | 2 |
| GENERAL PURPOSE FINANCIAL STATEMENTS | |
| All fund types and account group - combined balance sheet | 5 |
| All governmental fund types and expendable trust funds - combined statement of revenues, expenditures and changes in fund balances | 7 |
| General fund - statement of revenues and expenditures - budgetary basis - budget and actual | 8 |
| All proprietary fund types and nonexpendable trust funds - combined statement of revenues, expenses and changes in fund equity | 9 |
| All proprietary fund types and nonexpendable trust funds - combined statement of cash flows | 11 |
| Pension trust fund - statement of changes in net assets available for employees' pension benefits | 13 |
| Notes to general purpose financial statements | 14 |

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Independent Auditors' Report

To the Board of Selectmen
Town of Arlington, Massachusetts

We have audited the accompanying general purpose financial statements of the Town of Arlington, Massachusetts, as of and for the fiscal year ended June 30, 2002 (except for the Town of Arlington's Contributory Retirement System which is as of December 31, 2001), as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Arlington's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Inasmuch as the Commonwealth of Massachusetts does not require the capitalization of fixed assets, the Town has not maintained complete historical cost records of its General Fixed Assets. Accordingly, a statement of General Fixed Assets, required by accounting principles generally accepted in the United States of America, is not included in the general purpose financial statements.

As more fully described in Note 1, the Town maintains its Enterprise Funds on the modified accrual basis of accounting. Accordingly, the Enterprise Funds are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect on the general purpose financial statements of the matters described in the preceding two paragraphs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Arlington, Massachusetts, as of June 30, 2002 (except for the Town of Arlington's Contributory Retirement System which is as of December 31, 2001), and the results of its operations and the cash flows of its Proprietary Fund Types and Nonexpendable Trust Funds, and the changes in net assets available for employees' pension benefits of its Pension Trust Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 12, the Town has restated the beginning equity position in the Pension Trust Fund.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2002, 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 grants. 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.

A handwritten signature in cursive script that reads "Bowers + Sullivan". The signature is written in black ink and is positioned above the date.

August 30, 2002

General Purpose Financial Statements

**ALL FUND TYPES AND ACCOUNT GROUP
COMBINED BALANCE SHEET**

JUNE 30, 2002

| | Governmental Fund Types | | | Proprietary Fund Types | |
|---|-------------------------|---------------------|---------------------|----------------------------|---------------------------|
| | General | Special Revenue | Capital Projects | Water and Sewer Enterprise | Youth Services Enterprise |
| ASSETS AND OTHER DEBITS | | | | | |
| Cash and short-term investments..... | \$ 14,605,642 | \$ 4,954,945 | \$ 8,229,213 | \$ 3,274,043 | \$ - |
| Investments..... | 2,594,849 | - | - | - | - |
| Receivables, net of allowance for uncollectibles: | | | | | |
| Real estate and personal property taxes..... | 10,057 | - | - | - | - |
| Real estate tax deferrals..... | 347,818 | - | - | - | - |
| Tax liens..... | 216,588 | - | - | - | - |
| Motor vehicle and other excise taxes..... | 650,181 | - | - | - | - |
| User fees..... | - | - | - | 1,105,963 | - |
| Departmental and other..... | 45,131 | - | - | - | - |
| Interest and dividends..... | - | - | - | - | - |
| Intergovernmental..... | 14,029,594 | 3,906,745 | - | - | - |
| Loans..... | - | 904,817 | - | - | - |
| Due from other funds..... | 3,264 | - | - | - | - |
| Tax foreclosures..... | 397,922 | - | - | - | - |
| Investment in joint venture..... | - | - | - | - | - |
| Amounts to be provided for retirement of long-term obligations..... | - | - | - | - | - |
| TOTAL ASSETS AND OTHER DEBITS..... | \$ 32,901,046 | \$ 9,766,507 | \$ 8,229,213 | \$ 4,380,006 | \$ - |
| LIABILITIES AND FUND EQUITY | | | | | |
| LIABILITIES: | | | | | |
| Warrants payable..... | \$ 464,725 | \$ 465,430 | \$ 1,375,849 | \$ 374,691 | \$ 1,237 |
| Accrued payroll..... | 3,047,520 | 40,621 | - | 9,649 | 7,268 |
| Health claims payable..... | 948,000 | - | - | - | - |
| Tax refunds payable..... | 327,209 | - | - | - | - |
| Liabilities due depositors..... | 4,926 | - | - | - | - |
| Payroll withholdings..... | 23,589 | - | - | - | - |
| Abandoned property..... | 15,321 | - | - | - | - |
| Other liabilities..... | 62 | - | - | - | - |
| Deferred revenues..... | 15,213,372 | 3,906,745 | - | 1,105,963 | - |
| Due to other funds..... | - | - | - | - | 3,264 |
| Accrued compensated absences..... | - | - | - | - | - |
| Workers' compensation..... | - | - | - | - | - |
| Bonds and notes payable..... | - | 1,000,000 | 8,000,000 | 191,313 | - |
| TOTAL LIABILITIES..... | 20,044,724 | 5,412,796 | 9,375,849 | 1,681,616 | 11,769 |
| FUND EQUITY: | | | | | |
| Retained earnings..... | - | - | - | 2,698,390 | (11,769) |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Encumbrances and continuing appropriations..... | 1,385,373 | - | - | - | - |
| Loans..... | - | 904,817 | - | - | - |
| Nonexpendable trusts..... | - | - | - | - | - |
| Stabilization..... | - | - | - | - | - |
| Employees' pension benefits..... | - | - | - | - | - |
| Unreserved: | | | | | |
| Designated for subsequent year's expenditures..... | 3,267,285 | - | - | - | - |
| Designated for employee benefits..... | 507,000 | - | - | - | - |
| Designated for municipal insurance..... | 2,594,848 | - | - | - | - |
| Undesignated..... | 5,101,816 | 3,448,894 | (1,146,636) | - | - |
| TOTAL FUND EQUITY..... | 12,856,322 | 4,353,711 | (1,146,636) | 2,698,390 | (11,769) |
| TOTAL LIABILITIES AND FUND EQUITY..... | \$ 32,901,046 | \$ 9,766,507 | \$ 8,229,213 | \$ 4,380,006 | \$ - |

See notes to general purpose financial statements.

| Proprietary Fund Types | | | Fiduciary Fund Types | | Account Group | Total (Memorandum Only) |
|-----------------------------|---------------------------|-----------------------|----------------------|---------------------------------|-------------------------------|-------------------------|
| Council On Aging Enterprise | Veterans' Rink Enterprise | Recreation Enterprise | Trust and Agency | Pension Trust December 31, 2001 | General Long-Term Obligations | |
| \$ 102,375 | \$ 103,854 | \$ 4,228 | \$ 7,798,717 | \$ 76,937,256 | \$ - | \$ 116,010,273 |
| - | - | - | 10,750,341 | 33,654,313 | - | 46,999,503 |
| - | - | - | - | - | - | 10,057 |
| - | - | - | - | - | - | 347,818 |
| - | - | - | - | - | - | 216,588 |
| - | - | - | - | - | - | 650,181 |
| - | - | - | - | - | - | 1,105,963 |
| - | - | - | - | 203,980 | - | 249,111 |
| - | - | - | - | 438,319 | - | 438,319 |
| - | - | - | - | - | - | 17,936,339 |
| - | - | - | - | - | - | 904,817 |
| - | - | - | - | - | - | 3,264 |
| - | - | - | - | - | - | 397,922 |
| - | - | - | 1,038,165 | - | - | 1,038,165 |
| - | - | - | - | - | 57,547,000 | 57,547,000 |
| <u>\$ 102,375</u> | <u>\$ 103,854</u> | <u>\$ 4,228</u> | <u>\$ 19,587,223</u> | <u>\$ 111,233,868</u> | <u>\$ 57,547,000</u> | <u>\$ 243,855,320</u> |
| \$ 4,854 | \$ 1,162 | \$ 916 | \$ 25,814 | \$ - | \$ - | \$ 2,714,678 |
| 836 | 3,261 | 5,101 | - | - | - | 3,114,256 |
| - | - | - | - | - | - | 948,000 |
| - | - | - | - | - | - | 327,209 |
| - | - | - | 53,862 | - | - | 58,788 |
| - | - | - | - | - | - | 23,589 |
| - | - | - | - | - | - | 15,321 |
| - | - | - | - | - | - | 62 |
| - | - | - | - | - | - | 20,226,080 |
| - | - | - | - | - | - | 3,264 |
| - | - | - | - | - | 5,900,000 | 5,900,000 |
| - | - | - | - | - | 1,152,000 | 1,152,000 |
| - | - | - | - | - | 50,495,000 | 59,686,313 |
| <u>5,690</u> | <u>4,423</u> | <u>6,017</u> | <u>79,676</u> | <u>-</u> | <u>57,547,000</u> | <u>94,169,560</u> |
| 96,685 | 99,431 | (1,789) | - | - | - | 2,880,948 |
| - | - | - | - | - | - | 1,385,373 |
| - | - | - | - | - | - | 904,817 |
| - | - | - | 4,125,342 | - | - | 4,125,342 |
| - | - | - | 8,682,742 | - | - | 8,682,742 |
| - | - | - | - | 111,233,868 | - | 111,233,868 |
| - | - | - | - | - | - | 3,267,285 |
| - | - | - | - | - | - | 507,000 |
| - | - | - | - | - | - | 2,594,848 |
| - | - | - | 6,699,463 | - | - | 14,103,537 |
| <u>96,685</u> | <u>99,431</u> | <u>(1,789)</u> | <u>19,507,547</u> | <u>111,233,868</u> | <u>-</u> | <u>149,685,760</u> |
| <u>\$ 102,375</u> | <u>\$ 103,854</u> | <u>\$ 4,228</u> | <u>\$ 19,587,223</u> | <u>\$ 111,233,868</u> | <u>\$ 57,547,000</u> | <u>\$ 243,855,320</u> |

ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2002

| | Governmental Fund Types | | | Fiduciary Fund Type | Total (Memorandum Only) |
|---|-------------------------|---------------------|-----------------------|------------------------|-------------------------------|
| | General | Special Revenue | Capital Projects | Expendable Trusts | |
| REVENUES: | | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 58,743,222 | \$ - | \$ - | \$ - | \$ 58,743,222 |
| Motor vehicle and other excise taxes..... | 4,108,739 | - | - | - | 4,108,739 |
| Intergovernmental..... | 24,422,614 | 6,685,935 | - | - | 31,108,549 |
| Departmental and other..... | 2,884,702 | 4,100,177 | - | - | 6,984,879 |
| Contributions..... | - | - | - | 1,614,808 | 1,614,808 |
| Investment income..... | 764,454 | 19,904 | 139,708 | (838,623) | 85,443 |
| TOTAL REVENUES..... | 90,923,731 | 10,806,016 | 139,708 | 776,185 | 102,645,640 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| General government..... | 4,092,211 | 150,723 | 1,302,622 | 1,677 | 5,547,233 |
| Public safety..... | 11,043,127 | 1,340,094 | 715,034 | - | 13,098,255 |
| Education..... | 32,855,908 | 4,642,439 | 9,387,772 | 335,445 | 47,221,564 |
| Public works..... | 6,759,888 | 482,011 | 1,054,005 | 350,166 | 8,646,070 |
| Property and natural resources..... | 1,516,453 | 297,380 | 132,929 | - | 1,946,762 |
| Community development..... | 541,455 | 3,031,636 | 7,213,493 | - | 10,786,584 |
| Human services..... | 534,724 | 200,068 | 41,517 | 17,241 | 793,550 |
| Library..... | 1,594,327 | 52,456 | 77,983 | 94,903 | 1,819,669 |
| Culture and recreation..... | - | 48,261 | 646 | - | 48,907 |
| Pension benefits..... | 10,788,159 | - | - | - | 10,788,159 |
| Employee benefits..... | 8,328,593 | - | - | - | 8,328,593 |
| State and county charges..... | 2,997,909 | - | - | - | 2,997,909 |
| Debt service: | | | | | |
| Principal..... | 3,982,000 | - | - | - | 3,982,000 |
| Interest..... | 2,272,561 | - | - | - | 2,272,561 |
| TOTAL EXPENDITURES..... | 87,307,315 | 10,245,068 | 19,926,001 | 799,432 | 118,277,816 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | 3,616,416 | 560,948 | (19,786,293) | (23,247) | (15,632,176) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Proceeds from bonds and notes..... | - | - | 17,827,000 | - | 17,827,000 |
| Operating transfers in..... | 1,415,463 | 20,728 | 1,326,791 | 112,602 | 2,875,584 |
| Operating transfers out..... | (5,389,489) | (199,653) | (523,206) | (1,265,821) | (7,378,169) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | (3,974,026) | (178,925) | 18,630,585 | (1,153,219) | 13,324,415 |
| NET CHANGE IN FUND BALANCES..... | (357,610) | 382,023 | (1,155,708) | (1,176,466) | (2,307,761) |
| FUND BALANCES AT BEGINNING OF YEAR..... | 13,213,932 | 3,971,688 | 9,072 | 16,558,671 | 33,753,363 |
| FUND BALANCES AT END OF YEAR..... | \$ 12,856,322 | \$ 4,353,711 | \$ (1,146,636) | \$ 15,382,205 | \$ 31,445,602 |

See notes to general purpose financial statements.

GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGETARY BASIS - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2002

| | Budgeted Amounts | | Actual Budgetary Amounts | Variance Positive (Negative) |
|---|---------------------|---------------------|--------------------------------|------------------------------------|
| | Original Budget | Final Budget | | |
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 58,417,898 | \$ 58,417,898 | \$ 58,921,431 | \$ 503,533 |
| Motor vehicle and other excise taxes..... | 3,643,546 | 3,643,546 | 4,108,739 | 465,193 |
| Intergovernmental..... | 18,305,382 | 18,305,382 | 18,458,989 | 153,607 |
| Departmental and other..... | 2,376,371 | 2,376,371 | 2,884,702 | 508,331 |
| Investment income..... | 894,464 | 894,464 | 627,480 | (266,984) |
| TOTAL REVENUES..... | 83,637,661 | 83,637,661 | 85,001,341 | 1,363,680 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 6,086,217 | 5,066,168 | 4,090,223 | 975,945 |
| Public safety..... | 10,159,050 | 11,147,243 | 11,120,332 | 26,911 |
| Education..... | 33,290,500 | 33,292,159 | 32,815,766 | 476,393 |
| Public works..... | 7,410,559 | 7,428,378 | 7,010,353 | 418,025 |
| Property and natural resources..... | 1,646,444 | 1,654,824 | 1,449,454 | 205,370 |
| Planning and community development..... | 544,788 | 545,788 | 545,788 | - |
| Human services..... | 628,141 | 636,737 | 533,933 | 102,804 |
| Library..... | 1,549,891 | 1,597,108 | 1,592,073 | 5,035 |
| Pension benefits..... | 5,038,086 | 5,038,086 | 4,956,063 | 82,023 |
| Employee benefits..... | 9,173,234 | 9,221,234 | 8,593,856 | 627,378 |
| State and county charges..... | 2,904,059 | 2,904,059 | 2,997,909 | (93,850) |
| Debt service: | | | | |
| Principal..... | 4,035,295 | 3,982,000 | 3,982,000 | - |
| Interest..... | 2,327,854 | 2,276,337 | 2,272,561 | 3,776 |
| TOTAL EXPENDITURES..... | 84,794,118 | 84,790,121 | 81,960,311 | 2,829,810 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | (1,156,457) | (1,152,460) | 3,041,030 | 4,193,490 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers in..... | 1,430,185 | 1,558,463 | 1,558,463 | - |
| Operating transfers out..... | (5,257,215) | (5,389,489) | (5,389,489) | - |
| TOTAL OTHER FINANCING SOURCES (USES)..... | (3,827,030) | (3,831,026) | (3,831,026) | - |
| NET CHANGE IN FUND BALANCE..... | (4,983,487) | (4,983,486) | (789,996) | 4,193,490 |
| BUDGETARY FUND BALANCE, Beginning of year..... | 11,145,506 | 11,145,506 | 11,145,506 | - |
| BUDGETARY FUND BALANCE, End of year..... | \$ 6,162,019 | \$ 6,162,020 | \$ 10,355,510 | \$ 4,193,490 |

See notes to general purpose financial statements.

ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

FISCAL YEAR ENDED JUNE 30, 2002

| | Proprietary Fund Types | | |
|---|-------------------------------------|---------------------------------|-----------------------------------|
| | Water and Sewer Enterprise | Youth Services Enterprise | Council On Aging Enterprise |
| OPERATING REVENUES: | | | |
| Charges for services | \$ 6,539,675 | \$ 46,721 | \$ 15,271 |
| Contributions..... | - | - | - |
| TOTAL OPERATING REVENUES | 6,539,675 | 46,721 | 15,271 |
| OPERATING EXPENSES: | | | |
| Cost of services and administration | 13,211,885 | 346,970 | 87,512 |
| TOTAL OPERATING EXPENSES | 13,211,885 | 346,970 | 87,512 |
| OPERATING INCOME (LOSS)..... | (6,672,210) | (300,249) | (72,241) |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Investment income..... | 14,243 | - | - |
| Intergovernmental..... | - | 47,632 | 67,850 |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET..... | 14,243 | 47,632 | 67,850 |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS..... | (6,657,967) | (252,617) | (4,391) |
| OPERATING TRANSFERS: | | | |
| Transfers in..... | 4,255,691 | 243,660 | - |
| TOTAL OPERATING TRANSFERS..... | 4,255,691 | 243,660 | - |
| NET INCOME (LOSS)..... | (2,402,276) | (8,957) | (4,391) |
| FUND EQUITY, Beginning of year..... | 5,100,666 | (2,812) | 101,076 |
| FUND EQUITY, End of year..... | \$ 2,698,390 | \$ (11,769) | \$ 96,685 |

See notes to general purpose financial statements.

| Proprietary Fund Types | | Fiduciary Fund Type | Total (Memorandum Only) |
|---------------------------|-----------------------|----------------------|-------------------------|
| Veterans' Rink Enterprise | Recreation Enterprise | Nonexpendable Trusts | |
| \$ 283,116 | \$ 253,762 | \$ - | \$ 7,138,545 |
| - | - | 122,470 | 122,470 |
| <u>283,116</u> | <u>253,762</u> | <u>122,470</u> | <u>7,261,015</u> |
| <u>299,945</u> | <u>289,081</u> | <u>-</u> | <u>14,235,393</u> |
| <u>299,945</u> | <u>289,081</u> | <u>-</u> | <u>14,235,393</u> |
| <u>(16,829)</u> | <u>(35,319)</u> | <u>122,470</u> | <u>(6,974,378)</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>14,243</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>115,482</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>129,725</u> |
| <u>(16,829)</u> | <u>(35,319)</u> | <u>122,470</u> | <u>(6,844,653)</u> |
| <u>-</u> | <u>3,234</u> | <u>-</u> | <u>4,502,585</u> |
| <u>-</u> | <u>3,234</u> | <u>-</u> | <u>4,502,585</u> |
| <u>(16,829)</u> | <u>(32,085)</u> | <u>122,470</u> | <u>(2,342,068)</u> |
| <u>116,260</u> | <u>30,296</u> | <u>4,002,872</u> | <u>9,348,358</u> |
| <u>\$ 99,431</u> | <u>\$ (1,789)</u> | <u>\$ 4,125,342</u> | <u>\$ 7,006,290</u> |

**ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2002

| | Proprietary Fund Types | |
|--|-------------------------------------|---------------------------------|
| | Water and Sewer Enterprise | Youth Services Enterprise |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | |
| Receipts from customers and users..... | \$ 6,539,675 | \$ 46,721 |
| Payments to vendors..... | (11,376,518) | (43,339) |
| Payments to employees..... | (1,472,167) | (301,216) |
| NET CASH FROM OPERATING ACTIVITIES..... | (6,309,010) | (297,834) |
| <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u> | | |
| Transfers in..... | 4,255,691 | 243,660 |
| Advances from other funds..... | - | 3,264 |
| Intergovernmental subsidy..... | - | 47,632 |
| NET CASH FROM NONCAPITAL FINANCING ACTIVITIES..... | 4,255,691 | 294,556 |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u> | | |
| Principal payments on bonds and notes..... | (191,313) | - |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | (191,313) | - |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | |
| Purchase of investments..... | - | - |
| Investment income..... | 14,243 | - |
| NET CASH FROM INVESTING ACTIVITIES..... | 14,243 | - |
| NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS..... | (2,230,389) | (3,278) |
| CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR..... | 5,504,432 | 3,278 |
| CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR..... | \$ 3,274,043 | \$ - |
| <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u> | | |
| Operating income (loss)..... | \$ (6,672,210) | \$ (300,249) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | |
| Depreciation..... | | |
| Changes in assets and liabilities: | | |
| Warrants payable..... | 355,357 | (4,853) |
| Accrued liabilities..... | | |
| Accrued payroll..... | 7,843 | 7,268 |
| Total adjustments..... | 363,200 | 2,415 |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ (6,309,010) | \$ (297,834) |

See notes to general purpose financial statements.

| Proprietary Fund Types | | | Fiduciary Fund Type | Total (Memorandum Only) |
|-----------------------------|---------------------------|-----------------------|----------------------|-------------------------|
| Council On Aging Enterprise | Veterans' Rink Enterprise | Recreation Enterprise | Nonexpendable Trusts | |
| \$ 15,271 | \$ 283,116 | \$ 253,762 | \$ 122,470 | \$ 7,261,015 |
| (36,117) | (142,668) | (62,931) | - | (11,661,573) |
| <u>(46,472)</u> | <u>(161,567)</u> | <u>(231,318)</u> | - | <u>(2,212,740)</u> |
| <u>(67,318)</u> | <u>(21,119)</u> | <u>(40,487)</u> | <u>122,470</u> | <u>(6,613,298)</u> |
| - | - | 3,234 | - | 4,502,585 |
| - | - | - | - | 3,264 |
| <u>67,850</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>115,482</u> |
| <u>67,850</u> | <u>-</u> | <u>3,234</u> | <u>-</u> | <u>4,621,331</u> |
| - | - | - | - | (191,313) |
| - | - | - | - | (191,313) |
| - | - | - | (122,470) | (122,470) |
| - | - | - | - | 14,243 |
| - | - | - | (122,470) | (108,227) |
| 532 | (21,119) | (37,253) | - | (2,291,507) |
| <u>101,843</u> | <u>124,973</u> | <u>41,481</u> | <u>-</u> | <u>5,776,007</u> |
| <u>\$ 102,375</u> | <u>\$ 103,854</u> | <u>\$ 4,228</u> | <u>\$ -</u> | <u>\$ 3,484,500</u> |
| \$ (72,241) | \$ (16,829) | \$ (35,319) | \$ 122,470 | \$ (6,974,378) |
| 4,854 | (4,658) | (5,436) | - | 345,264 |
| 69 | 368 | 268 | - | 15,816 |
| <u>4,923</u> | <u>(4,290)</u> | <u>(5,168)</u> | <u>-</u> | <u>361,080</u> |
| <u>\$ (67,318)</u> | <u>\$ (21,119)</u> | <u>\$ (40,487)</u> | <u>\$ 122,470</u> | <u>\$ (6,613,298)</u> |

PENSION TRUST FUND
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR EMPLOYEES' PENSION BENEFITS
 YEAR ENDED DECEMBER 31, 2001

| | |
|---|-----------------------|
| <u>ADDITIONS:</u> | |
| Employer contributions..... | \$ 5,216,436 |
| Employee contributions..... | <u>1,935,361</u> |
| Total contributions..... | <u>7,151,797</u> |
| Net investment income (loss): | |
| Net change in fair value of investments..... | (9,954,049) |
| Investment income..... | <u>2,489,296</u> |
| Total investment income (loss)..... | (7,464,753) |
| Less: investment expense..... | <u>(307,080)</u> |
| Net investment income (loss)..... | <u>(7,771,833)</u> |
| Intergovernmental..... | 712,253 |
| Transfers from other systems..... | <u>380,278</u> |
| Total additions..... | <u>472,495</u> |
| <u>DEDUCTIONS:</u> | |
| Administration..... | 145,578 |
| Transfers to other systems..... | 250,569 |
| Retirement benefits and refunds..... | <u>10,381,673</u> |
| Total deductions..... | <u>10,777,820</u> |
| Net change..... | (10,305,325) |
| Net assets available for employees' pension benefits at beginning of year (fund balance reserved for employees' pension benefits), as restated..... | <u>121,539,193</u> |
| Net assets available for employees' pension benefits at end of year (fund balance reserved for employees' pension benefits)..... | <u>\$ 111,233,868</u> |

See notes to general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose financial statements of the Town of Arlington, Massachusetts (Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town is a municipal corporation governed by “The Town Manager Act of the Town of Arlington, Massachusetts”, the “By-Laws of the Town of Arlington”, and Massachusetts General Laws Chapter 43A, “Standard Form of Representative Town Meeting Government”. The executive branch is made up of a five-member Board of Selectmen elected at large. The Board hires a professional manager to administer the daily operations of the government. The legislative branch is a Town Meeting made up of 252 representatives, elected from each of the twenty-one precincts in the Town. Arlington is also a member of the 7th Massachusetts Congressional District, 4th Middlesex State Senatorial District, and the 25th and 26th Middlesex State Representative Districts.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential Component Units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town’s general purpose financial statements to be misleading or incomplete. As required by GAAP, these general purpose financial statements present the Town (the Primary Government) and its Component Units. The Town has included one entity as a Component Unit in the reporting entity, because of the significance of its operational and/or financial relationship with the Town.

Blended Component Units – Blended Component Units are entities which are legally separate from the Town, but are so related to the Town that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The Arlington Contributory Retirement System (System) is blended within the Primary Government.

The System was established to provide retirement benefits to Town employees and their beneficiaries. The System is governed by a five member Retirement Board comprised of the Town Comptroller (ex-officio), two members elected by the System’s participants, one member appointed by the Board of Selectmen and one member appointed by the Retirement Board’s members. The System is presented using the accrual basis of accounting and is reported as a Pension Trust Fund. The System did not issue a separate audited financial statement.

Joint Ventures - The Town is a member of the North East Solid Waste Committee (NESWC), a joint venture with 23 communities organized to represent its members in all matters related with solid waste disposal at a regional waste-to-energy facility located in North Andover, Massachusetts. In accordance with a depository agreement, NESWC was granted control over various funds received from contract communities. As of June 30, 2002, the Town's equity interest in the operation of NESWC is \$1,038,165, which is recorded as a receivable in the Tip Fee Stabilization Fund (Expendable Trust Fund). Complete financial statements for NESWC can be obtained directly from their administrative office located at 3 Burlington Woods Park, Burlington, MA 01803.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Town are organized and operated on the basis of Funds and Account Groups. A Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of governmental funds not recorded directly in those funds.

The Town has the following Fund Types and Account Group:

Governmental Funds are used to account for the Town's general governmental activity. Governmental Fund Types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related Fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgements which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues available if they are collected within 60-days after year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received by the Town and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

Governmental funds include the following Fund Types:

The *General Fund* is the general operating fund of the Town. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *Special Revenue Fund* is used to account for the proceeds of specific revenue sources (other than Expendable Trusts or Capital Projects) that are restricted by law or administrative action to expenditures for specified purposes.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Trust Funds).

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. For Proprietary Fund accounting, the Town applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The *Enterprise Funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Town has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Enterprise Funds are used to account for the Town's Water and Sewer, Youth Services, Council on Aging, Veterans' Rink and Recreation activities.

The Town does not account for the Enterprise Funds using a flow of economic resources measurement focus and the accrual basis of accounting. The Town does not record fixed assets, depreciation, contributed capital, accrued revenues and accrued expenses. Therefore, the Enterprise Funds' financial statements are reported using the modified accrual basis of accounting. This presentation is not in accordance with GAAP.

Fiduciary Funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Town under the terms of a trust agreement.

The *Expendable Trust Fund* is accounted for in essentially the same manner as governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds are used to account for trusts where both principal and earnings may be spent.

The *Nonexpendable Trust Fund and Pension Trust Fund* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The Nonexpendable Trust Fund is used to account for trusts that stipulate that only earnings, and not principal, may be spent.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This Fund is used to account for assets that the Town holds for others in an agency capacity.

The **General Long-Term Obligations Account Group** is used to account for general long-term bonds and notes issued by the Town, compensated absences and workers' compensation claims that will be financed in future fiscal years from Governmental Funds.

C. Cash and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value.

D. Property Taxes

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 August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Tax liens are processed during the fourth quarter of every fiscal year on delinquent properties. Property taxes levied are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

E. Water and Sewer Charges

Water and sewer charges are levied semi-annually based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed in June of every year and are included as a lien on the property owner's tax bill in the following fiscal year. Water and sewer charges are recorded as receivables in the fiscal year of the levy and are recorded on the modified accrual basis of accounting, which is not in accordance with GAAP.

F. Inventories

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the general purpose financial statements and therefore are not reported.

G. Interfund/Intrafund Transactions

During the course of its operations, the Town records transactions between Funds and/or between departments. Transactions of a buyer/seller nature between departments within a Fund are not eliminated from the individual Fund statements. Receivables and payables resulting from transactions between Funds are classified as "Due from other funds" or "Due to other funds" on the combined balance sheet.

H. Fixed Assets

The Commonwealth of Massachusetts does not require the Town to capitalize expenditures for General Fixed Assets. Accordingly, such disbursements in the Governmental Funds are considered expenditures in the fiscal year payments are made. As a result of this practice, the accompanying general purpose financial statements do not include a statement of the General Fixed Assets Account Group, which is a departure from GAAP.

A complete accounting of fixed assets and depreciation of the Enterprise Funds has not been maintained and therefore are not reported. This is a departure from GAAP.

I. Fund Equity

The Town reports fund balances as reserved and designated where legally restricted for a specific future use. Otherwise, these balances are considered undesignated.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

"Loans" represents the balance on loans the Town has made to residents as a participant in the Community Development federal loan program.

"Nonexpendable trusts," represents amounts held by the Town for which only investment earnings may be expended.

"Stabilization" represents the amount accumulated for general and/or capital purposes and for financial obligations associated with the Town's solid waste agreement with Wheelabrator North Andover, Inc. (WNAI).

"Employees' pension benefits," represents the net assets available to the System's participants that cannot be

used for any other purpose.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2003 operating budget.

“Employee benefits” represents amounts accumulated for the specific purpose of providing health insurance coverage for the Town’s employees and retirees.

“Municipal insurance” represents the amounts the Town has designated for liability and casualty self-insurance.

J. Long-Term Debt

Long-term financing related to governmental funds is recorded in the General Long-Term Obligations Account Group. Principal and interest expenditures on long-term debt are recorded in the General Fund.

Long-term financing related to the Water and Sewer Enterprise Fund is recorded as a liability of that Fund. Principal paydowns and interest expenses paid on long-term debt are recorded in the Water and Sewer Enterprise Fund.

K. Investment Income

Investment income from Special Revenue and Capital Projects Funds (except the School Capital Stabilization Fund) is legally assigned to the General Fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from the Nonexpendable Trust Fund is legally assigned to the Expendable Trust Fund.

Investment income from the Enterprise Funds (except the Water and Sewer Enterprise Fund) is voluntarily assigned to the General Fund.

L. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. For governmental funds and proprietary funds, vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-Term Obligations Account Group.

M. Post Retirement Benefits

In addition to providing pension benefits, the Town provides health insurance coverage for retired employees and their survivors. The Town recognizes the cost of providing health insurance by recording its share of insurance premiums in the General Fund in the fiscal year paid. For the fiscal year ended June 30, 2002, this expenditure totaled approximately \$2,630,000. There were approximately 900 participants eligible to receive benefits at June 30, 2002.

N. Use of Estimates

The preparation of the general purpose financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the general purpose 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.

O. Total Column (Memorandum Only)

The total column used on the General Purpose Financial Statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the Town to adopt a balanced budget that is approved by the Finance Committee (Committee). The Committee presents an annual budget to the representative town meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Town, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote at the Annual Town Meeting. Changes subsequent to the approved annual budget require majority vote at a special town meeting.

The majority of the Town's appropriations are non-continuing, which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgements may exceed the level of spending authorized by majority vote at a special town meeting.

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2002 approved budget for the General Fund authorized approximately \$90,051,000 in appropriations and other amounts to be raised. During fiscal year 2002, the original budget was increased by approximately \$128,000.

The Town Comptroller has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town's accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth of Massachusetts (Commonwealth)) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2002, is presented as follows:

| | |
|---|---------------------|
| Net change in fund balance - budgetary basis..... | \$ (789,996) |
| <u>Perspective difference:</u> | |
| Activity of health insurance and municipal building insurance trust recorded in the general fund for GAAP..... | 305,586 |
| <u>Basis of accounting differences:</u> | |
| Net change in revenue accruals..... | 126,800 |
| Recognition of revenue for on-behalf payments..... | (5,832,000) |
| Recognition of expenditures for on-behalf payments..... | <u>5,832,000</u> |
| Net change in fund balance - GAAP basis..... | <u>\$ (357,610)</u> |

C. Appropriation Deficits

During fiscal year 2002, expenditures exceeded budgeted appropriations for state and county charges. These deficits will be funded through available funds in fiscal year 2003.

D. Fund Deficits

Several individual fund deficits exist within the Special Revenue and Capital Projects Funds at June 30, 2002. These deficits will be funded by grant proceeds, bond proceeds, and other available funds.

At June 30, 2002, the Youth Services Enterprise Fund had a deficit of \$11,769 and the Recreation Enterprise Fund had a deficit of \$1,789. These deficits will be funded through future available funds.

NOTE 3 - CASH AND INVESTMENTS

The Town maintains a cash and investment pool that is available for use by all funds, except the Trust Funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-Term Investments". The deposits and investments of the Trust Funds are held separately from those of other Town funds.

At fiscal year-end, the carrying amount of the Town's deposits totaled \$20,124,232 and the bank balance totaled \$21,967,829. Of the bank balance, \$403,677 was covered by Federal Depository Insurance, \$1,942,646 was covered by the Depositors Insurance Fund, and \$19,621,506 was uninsured and uncollateralized.

At December 31, 2001, the carrying amount of the System's deposits totaled \$14,910 and the bank balance of \$249,869 was covered by Federal Depository Insurance.

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Town participates in the Pool, which meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the Town or its agent in the Town's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Town's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the Town's name.

The June 30, 2002, carrying value of the Town's deposits and investments consists of the following:

| | <u>Cash and Short-term Investments</u> | <u>Investments</u> | <u>Total</u> |
|--|--|----------------------|----------------------|
| <i>Cash balances (excluding the System) at June 30, 2002:</i> | | | |
| Checking, savings and NOW accounts..... | \$ 7,812,986 | \$ - | \$ 7,812,986 |
| Certificates of deposit..... | 40,585 | - | 40,585 |
| Money market deposits..... | <u>12,270,661</u> | <u>-</u> | <u>12,270,661</u> |
| Total carrying amount of cash..... | <u>20,124,232</u> | <u>-</u> | <u>20,124,232</u> |
| <u>Investments not subject to categorization:</u> | | | |
| MMDT..... | 18,516,787 | - | 18,516,787 |
| Money market mutual funds..... | 68,445 | - | 68,445 |
| <u>Investments subject to categorization (Category 3):</u> | | | |
| Equity securities..... | - | 13,345,190 | 13,345,190 |
| Repurchase agreements..... | <u>363,553</u> | <u>-</u> | <u>363,553</u> |
| Total investments..... | <u>18,948,785</u> | <u>13,345,190</u> | <u>32,293,975</u> |
| Total cash and short-term investments and investments of the Town at June 30, 2002..... | \$ <u>39,073,017</u> | \$ <u>13,345,190</u> | \$ <u>52,418,207</u> |

System cash balances at December 31, 2001:

| | | | | | | |
|---|----|---------------|----|----------|----|---------------|
| Checking, savings and NOW accounts..... | \$ | <u>14,910</u> | \$ | <u>-</u> | \$ | <u>14,910</u> |
| Total carrying amount of cash..... | | <u>14,910</u> | | <u>-</u> | | <u>14,910</u> |

Investments not subject to categorization:

| | | | |
|--------------------------------|------------|---|------------|
| Mutual funds..... | 76,484,073 | - | 76,484,073 |
| Alternative investments..... | 149,813 | - | 149,813 |
| Money market mutual funds..... | 288,460 | - | 288,460 |

Investments subject to categorization (Category 3):

| | | | |
|--|-----------------------|----------------------|-----------------------|
| Fixed income securities..... | <u>-</u> | <u>33,654,313</u> | <u>33,654,313</u> |
| Total investments..... | <u>76,922,346</u> | <u>33,654,313</u> | <u>110,576,659</u> |
| Total cash and short-term investments and investments of the System at December 31, 2001..... | <u>76,937,256</u> | <u>33,654,313</u> | <u>110,591,569</u> |
| Total cash and short-term investments and investments as reported on the combined balance sheet..... | \$ <u>116,010,273</u> | \$ <u>46,999,503</u> | \$ <u>163,009,776</u> |

NOTE 4 – PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Arlington Contributory Retirement Board (Board). Substantially all employees are members of the System except for school public teachers and certain administrators who are members of the Commonwealth of Massachusetts’ Teachers Contributory Retirement System to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are funded by the Commonwealth of Massachusetts (the Commonwealth). The amount of these on-behalf payments totaled approximately \$5,832,000 for the fiscal year ended June 30, 2002, and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Pension Expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the system. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth’s Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 869 Massachusetts Avenue, Arlington, MA 02476.

At January 1, 2002 the System's membership consisted of the following:

| | |
|--|-------------------------|
| Active members..... | 733 |
| Inactive members..... | 73 |
| Retirees and beneficiaries currently receiving benefits..... | <u>600</u> |
| Total..... | <u><u>1,406</u></u> |

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution, which are apportioned among the employers based on active current payroll. The current and two preceding fiscal years apportionment required the Town to contribute approximately 96% of the annual pension cost of employers. The contributions of system members and the Town are governed by Chapter 32 of the MGL.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2002, 2001 and 2000 were \$5,015,780, \$4,932,159 and \$4,909,286 respectively, which equaled its required contribution for each fiscal year. At June 30, 2002, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.0% investment rate of return and a 5.0% rate of salary increase per year. The actuarial value of the Plan's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2002, was 15 years.

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) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 1/1/02 | \$ 111,128 | \$ 153,542 | \$ 42,414 | 72.4% | \$ 24,276 | 174.7% |
| 1/1/01 | 121,500 | 145,100 | 23,600 | 83.7% | 22,757 | 103.7% |
| 1/1/00 | 115,600 | 143,300 | 27,700 | 80.7% | 21,242 | 130.4% |
| 1/1/99 | 106,200 | 136,100 | 29,900 | 78.0% | 20,781 | 143.9% |
| 1/1/98 | 96,300 | 127,100 | 30,800 | 75.8% | 19,834 | 155.3% |
| 1/1/96 | 72,300 | 111,700 | 39,400 | 64.7% | 18,215 | 216.3% |
| 1/1/95 | 57,000 | 93,900 | 36,900 | 60.7% | 13,600 | 271.3% |

Non-contributory Retirement Allowance - The Town pays the entire retirement allowance for certain retirees who are eligible for non-contributory benefits and are not members of the System. The general fund expenditure for fiscal year 2002 totaled approximately \$307,000.

NOTE 5 - SHORT-TERM FINANCING

The Town is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures/expenses for short-term borrowings are accounted for in the General Fund and Enterprise Funds, respectively. As of June 30, 2002, the Town had the following BANS outstanding:

| Type | Purpose | Rate (%) | Due Date | Balance at June 30, 2001 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2002 |
|-------|----------------------|----------|----------|--------------------------|---------------------|---------------------|--------------------------|
| BAN | Various..... | 3.75 | 10/02/01 | \$ 1,148,000 | \$ - | \$ 1,148,000 | \$ - |
| BAN * | Symmes Property..... | 2.58 | 04/10/03 | - | 1,000,000 | - | 1,000,000 |
| BAN | Symmes Property..... | 2.24 | 04/10/03 | - | 8,000,000 | - | 8,000,000 |
| | | | | <u>\$ 1,148,000</u> | <u>\$ 9,000,000</u> | <u>\$ 1,148,000</u> | <u>\$ 9,000,000</u> |

NOTE 6 - LONG-TERM DEBT

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit". Details related to the Town's outstanding indebtedness related to the governmental fund types at June 30, 2002 are as follows:

Bonds Payable Schedule - Governmental Funds

| Project | Interest Rate (%) | Outstanding at June 30, 2001 | Issued | Redeemed | Outstanding at June 30, 2002 |
|-------------------------------|-------------------|------------------------------|----------------------|---------------------|------------------------------|
| Municipal Purpose - 1992..... | 4.7 | \$ 785,000 | \$ - | \$ 425,000 | \$ 360,000 |
| Municipal Purpose - 1993..... | 3.59 | 395,000 | - | 150,000 | 245,000 |
| Municipal Purpose - 1996..... | 4.33 | 1,320,000 | - | 280,000 | 1,040,000 |
| Municipal Purpose - 1997..... | 5.16 | 5,295,000 | - | 355,000 | 4,940,000 |
| Municipal Purpose - 1997..... | 5.22 | 4,400,000 | - | 275,000 | 4,125,000 |
| Municipal Purpose - 1999..... | 4.0 - 6.0 | 16,555,000 | - | 1,125,000 | 15,430,000 |
| Municipal Purpose - 2000..... | 5.1 | 7,900,000 | - | 565,000 | 7,335,000 |
| Municipal Purpose - 2002..... | 3.75 - 4.88 | - | 17,827,000 | 807,000 | 17,020,000 |
| Total..... | | <u>\$ 36,650,000</u> | <u>\$ 17,827,000</u> | <u>\$ 3,982,000</u> | <u>\$ 50,495,000</u> |

The annual debt service requirements for the governmental fund types are as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------------|----------------------|----------------------|
| 2003..... | \$ 4,290,000 | \$ 2,262,441 | \$ 6,552,441 |
| 2004..... | 3,910,000 | 2,089,558 | 5,999,558 |
| 2005..... | 3,765,000 | 1,928,033 | 5,693,033 |
| 2006..... | 3,665,000 | 1,772,390 | 5,437,390 |
| 2007..... | 3,205,000 | 1,620,505 | 4,825,505 |
| 2008..... | 3,150,000 | 1,482,233 | 4,632,233 |
| 2009..... | 3,040,000 | 1,341,826 | 4,381,826 |
| 2010..... | 2,905,000 | 1,203,867 | 4,108,867 |
| 2011..... | 2,810,000 | 1,073,477 | 3,883,477 |
| 2012..... | 2,695,000 | 943,256 | 3,638,256 |
| 2013..... | 2,640,000 | 816,037 | 3,456,037 |
| 2014..... | 2,635,000 | 687,639 | 3,322,639 |
| 2015..... | 2,645,000 | 558,137 | 3,203,137 |
| 2016..... | 2,670,000 | 425,897 | 3,095,897 |
| 2017..... | 2,690,000 | 291,297 | 2,981,297 |
| 2018..... | 1,685,000 | 174,316 | 1,859,316 |
| 2019..... | 700,000 | 100,732 | 800,732 |
| 2020..... | 700,000 | 67,482 | 767,482 |
| 2021..... | 695,000 | 33,882 | 728,882 |
| Totals..... | \$ <u>50,495,000</u> | \$ <u>18,873,005</u> | \$ <u>69,368,005</u> |

Notes Payable Schedule - Water and Sewer Enterprise Fund

| Projects | Interest Rate (%) | Outstanding at June 30, 2001 | Issued | Redeemed | Outstanding at June 30, 2002 |
|--|-------------------|------------------------------|-------------|-------------------|------------------------------|
| Financial Assistance Bond - MWRA.... * | 0.00 | \$ 60,300 | \$ - | \$ 30,150 | \$ 30,150 |
| Water Infrastructure Bond - MWRA.... * | 0.00 | 155,166 | - | 77,583 | 77,583 |
| Financial Assistance Bond - MWRA.... * | 0.00 | 167,160 | - | 83,580 | 83,580 |
| Total..... | | \$ <u>382,626</u> | \$ <u>-</u> | \$ <u>191,313</u> | \$ <u>191,313</u> |

* The Town is a member of the Massachusetts Water Resources Authority (MWRA) which offers its members interest free loans for various purposes.

The annual debt service requirements of the Water and Sewer Enterprise Fund are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|-------------------|-----------------|-------------------|
| 2003..... | \$ <u>191,313</u> | \$ <u>-</u> | \$ <u>191,313</u> |

The Commonwealth of Massachusetts has approved school construction assistance to the Town. The assistance program, which is administered by the School Building Assistance Bureau, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2002, the Town received approximately \$1,343,000 of such assistance. Approximately \$21,052,000 will be received in future fiscal years. Of this amount, approximately \$7,022,000 represents reimbursement of long-term interest costs, and approximately \$14,030,000 represents reimbursement of approved construction costs. Accordingly, an intergovernmental receivable and corresponding deferred revenue have been reported in these general purpose financial statements in the amount of \$14,030,000.

The Town is subject to various debt limits by statute, and may issue additional general obligation debt under the normal debt limit. As of June 30, 2002, the Town has the following authorized and unissued debt:

| <u>Purpose</u> | <u>Amount</u> |
|---------------------------------|----------------------|
| Suburban renewal..... | \$ 14,000,000 |
| School construction..... | 9,943,000 |
| Sewer and water facilities..... | 3,616,429 |
| Reeds Brook project..... | 2,340,000 |
| Capital equipment..... | <u>1,941,620</u> |
| Total..... | \$ <u>31,841,049</u> |

General Long-Term Obligations Account Group

The Town records its governmental funds liability for long-term bonds and notes in the General Long-Term Obligations Account Group. Other general long-term obligations recognized by the Town are its obligations for workers' compensation claims and compensated absences (vacation and sick pay benefits). These liabilities will be liquidated in the future from governmental funds.

During the fiscal year ended June 30, 2002, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group.

| | <u>Balance June 30, 2001</u> | <u>Bonds and Notes Redeemed</u> | <u>Other Net Increase (Decrease)</u> | <u>Balance June 30, 2002</u> |
|--------------------------------|--------------------------------------|---|--|--------------------------------------|
| Long-Term Bonds and Notes..... | \$ 36,650,000 | \$ (3,982,000) | \$ 17,827,000 | \$ 50,495,000 |
| Workers' Compensation..... | 1,000,000 | - | 152,000 | 1,152,000 |
| Compensated Absences..... | <u>6,200,000</u> | <u>-</u> | <u>(300,000)</u> | <u>5,900,000</u> |
| Total..... | \$ <u>43,850,000</u> | \$ <u>(3,982,000)</u> | \$ <u>17,679,000</u> | \$ <u>57,547,000</u> |

NOTE 7 - STABILIZATION FUND

As of June 30, 2002, the Town has \$2,493,739 in a Stabilization Fund reported as an Expendable Trust Fund. The Town may use the Stabilization Fund for general and/or capital purposes upon Town Meeting approval.

NOTE 8 - TIP FEE STABILIZATION FUND

In accordance with Chapter 8 of the Acts of 1998 of the Commonwealth, the Town maintains a Tip Fee Stabilization Fund to account for proceeds from the sale of recycled materials; the sale of excess tonnage capacity of the Town at the facility of WNAI, including the balance of such funds previously received; other receipts arising from the sale of disposal of solid waste; and any funds appropriated by Town meeting for the purposes of this fund.

Town meeting may appropriate from the Tip Fee Stabilization Fund to fund any of the Town’s financial obligations associated with the existing solid waste agreement with WNAI, or a successor agreement, in association with NESWC. In addition, to provide for extraordinary and unforeseen expenditures, the Town Manager, with the approval of the Board of Selectmen and the Finance Committee, may expend up to 10% of the fund without further appropriation. Beginning in the fiscal year commencing July 1, 2005, Town Meeting, by two-thirds vote, may appropriate from the Tip Fee Stabilization Fund for any lawful purpose.

The Town has \$6,189,003 in the Tip Fee Stabilization Fund at June 30, 2002, which is recorded as an Expendable Trust Fund. The activity of the fund in fiscal year 2002 consists of the following:

| | |
|---|----------------------------|
| Fund balance at June 30, 2001..... | \$ 5,884,480 |
| Proceeds from the sale of excess tonnage capacity, recycled materials, disposal of solid waste and other revenues from NESWC..... | 1,352,563 |
| Investment income..... | 131,145 |
| Transfer to the General Fund..... | <u>(1,179,185)</u> |
| Fund balance at June 30, 2002..... | \$ <u><u>6,189,003</u></u> |

NOTE 9 - RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

Employee Benefits

The Town is self-insured for its health insurance activities. These activities are accounted for in the Town’s General Fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

The Town estimates its Incurred But Not Reported (IBNR) health claims liability based on two-month claims paid average for the six months prior to fiscal year-end. At June 30, 2002, the amount of the liability for health insurance claims totaled \$948,000. This liability is the Town’s best estimate based on available information.

Changes in the reported liability since July 1, 2000, are as follows:

Employee Benefits

| | Balance at Beginning of Fiscal Year | Current Year Claims and Changes in Estimate | Claims Payments | Balance at Fiscal Year-End |
|-----------------------|---|--|--------------------|----------------------------------|
| Fiscal Year 2001..... | \$ 900,000 | \$ 5,946,526 | \$ (5,881,526) | \$ 965,000 |
| Fiscal Year 2002..... | 965,000 | 6,721,410 | (6,738,410) | 948,000 |

In fiscal year 2001, the Town established a Retiree Healthcare Trust Fund. The Town’s intention is to appropriate money into the fund each year to stabilize future costs for the healthcare of retirees. The Town has approximately \$197,000 in the fund at June 30, 2002, and is reported as an Expendable Trust Fund.

Workers’ Compensation

Workers’ compensation claims are funded on a pay-as-you-go basis from annual appropriations. The Town estimates its future workers’ compensation liability based on history and injury type. At June 30, 2002, the amount of the liability for workers’ compensation claims totaled \$1,152,000. This liability is the Town’s best estimate based on available information.

Changes in the reported liability since July 1, 2001 are as follows:

Workers’ Compensation

| | Balance at Beginning of Fiscal Year | Current Year Claims and Changes in Estimate | Claims Payments | Balance at Fiscal Year-End |
|-----------------------|---|--|--------------------|----------------------------------|
| Fiscal Year 2002..... | \$ 1,000,000 | \$ 411,456 | \$ (259,456) | \$ 1,152,000 |

The Town’s IBNR claims for municipal insurance is not material at June 30, 2002, and therefore are not reported.

NOTE 10 - COMMITMENTS

Waste Disposal

Under the terms of an agreement with the State Department of Environmental Management and WNAI, the Town is unconditionally obligated to make certain payments for its portion of the costs of using a resource recovery plant based on its projected minimum tonnage of solid waste to be disposed of at the plant. The cost to the Town under the agreement was approximately \$3,148,000 in fiscal year 2002. The facility was financed by the issuance of bonds in the amount of approximately \$197,000,000. In the event of a facility failure, under circumstances in which the WNAI is not required or is unable to pay damages, the Town’s indirect share of the bonds, based on the aggregate projected minimum disposal tonnage of all participating communities, would be approximately 12% of the total.

School Construction

The Town has various commitments and obligations in connection with constructing, remodeling, reconstructing, and making extraordinary repairs to the Bishop, Hardy, and Bracket schools. The projects are estimated to cost approximately \$23,000,000. As of June 30, 2002, the projects are substantially complete and have been financed through long-term borrowing.

The Town is also in the process of remodeling, and reconstructing the Pierce school. This project is estimated to cost \$10,300,000, which will also be funded through long-term borrowing. Approximately 85% of this project was completed in fiscal year 2002. It is estimated that the remainder of the project will be completed in fiscal year 2003.

The Commonwealth has approved construction assistance of approximately 63% of the total cost of these projects, which will consist of annual reimbursements of principal and interest payments on the long-term debt associated with the project.

The Town has also appropriated \$9,200,000 for the remodeling and reconstruction of the Dallin school. This project has temporarily been put on hold due to a delay in the time that it will take to begin receiving construction assistance from the state.

Purchase of Property

During fiscal year 2002, the Town appropriated and authorized to borrow \$14,000,000 to provide the Arlington Redevelopment Board with funds for the purchase, operation, maintenance and development of a property totaling approximately 18 acres which was the former site of Symmes Hospital. The purchase price for the property totaled \$7,100,000, and the balance is to be expended for the development, operation, maintenance, and planning for the site. The site was purchased in fiscal year 2002 and is currently operated under the jurisdiction of the Arlington Redevelopment Board. All revenues generated from the site are to be used for the amortization of indebtedness for the purchase or redevelopment of the site or to reduce the tax rate. Future urban renewal or general municipal purpose uses for the site will be determined under the direction of the Arlington Redevelopment Board.

NOTE 11 - CONTINGENCIES

The Town participates in a number of federal financial assistance programs. Although the Town grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2002, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2002, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2002.

NOTE 12 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS*Pension Trust Fund*

During fiscal year 2002, the Town implemented GASB Statement #33, Accounting and Financial Reporting for Nonexchange Transactions, in the pension trust fund. Accordingly, the previously reported net assets of \$118,976,537 have been increased in the amount of \$2,562,656 to reflect the pronouncement. The restated beginning net assets of the pension trust fund at December 31, 2000, totals \$121,539,193.

NOTE 13 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following pronouncements:

- Statement #34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (Statement #34).
- Statement #37, Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments; Omnibus
- Statement #38, Certain Financial Statement Note Disclosures

The significant changes related to the implementation of these statements include the following:

- For the first time the financial statements will include:
 - A Management Discussion and Analysis (MD&A) section that provides an analysis of the overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the non-fiduciary activities, including reporting all capital assets.
 - A change in the fund financial statements to focus on the major funds.

The Town’s implementation date is fiscal year 2003.

During fiscal year 2002, the GASB issued Statement #39, Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14, which is required to be implemented during fiscal year 2004. It is expected that this pronouncement will not significantly impact the basic financial statements.