

***TOWN OF ARLINGTON, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***FISCAL YEAR ENDED JUNE 30, 2003***

TOWN OF ARLINGTON, MASSACHUSETTS

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## 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, 2003 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2002), 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.

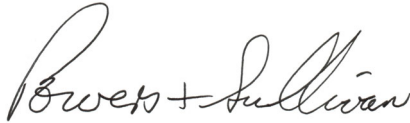
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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, 2003 (except for the Arlington Contributory Retirement System which is as of December 31, 2002), 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.

As more fully described in Note 14, the Town has implemented several Governmental Accounting Standards Board Statements, which changed the beginning fund equity position of several funds and established net assets for governmental activities and business-type activities.

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2003, 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.

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.

A handwritten signature in cursive script that reads "Powers + Sullivan". The signature is written in black ink and is positioned in the upper left quadrant of the page.

August 29, 2003

# ***Management's Discussion and Analysis***

## ***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, 2003. This is the first year our financial statements have been prepared under the Governmental Accounting Standards Board Statement Number 34 – Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This new reporting model represents a major change when compared to prior financial statements. 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 of 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, pension benefits, employee benefits, debt service expenditures and state and county charges. 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.

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 statement has been provided for the general fund to demonstrate compliance with this budget.

**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.

**Financial Highlights.** The following page provides a table of financial highlights of the government-wide financial statements for fiscal year 2003. Since this is the first year of implementation of GASB Statement #34, prior year amounts are not available. Comparative analysis will be presented in future years when the information is available.



## FINANCIAL HIGHLIGHTS

	Governmental Activities	Business-type Activities
<b>Assets:</b>		
Current assets.....	\$ 47,525,857	\$ 4,802,503
Noncurrent assets (excluding capital).....	20,256,975	-
Capital assets.....	86,710,237	7,575,531
<b>Total assets.....</b>	<b>154,493,069</b>	<b>12,378,034</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	10,267,093	262,949
Noncurrent liabilities (excluding debt).....	2,606,800	-
Current debt.....	14,410,000	-
Noncurrent debt.....	44,295,000	-
<b>Total liabilities.....</b>	<b>71,578,893</b>	<b>262,949</b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	54,824,740	7,575,531
Restricted.....	9,668,304	-
Unrestricted.....	18,421,132	4,539,554
<b>Total net assets.....</b>	<b>82,914,176</b>	<b>12,115,085</b>
<b>Program revenues:</b>		
Charges for services.....	7,149,387	7,264,683
Operating grants and contributions.....	22,033,829	78,661
Capital grants and contributions.....	2,876,849	-
<b>General Revenues:</b>		
Real estate and personal property taxes.....	60,321,682	-
Tax liens.....	130,035	-
Motor vehicle and other excise taxes.....	4,510,826	-
Hotel/motel tax.....	40,888	-
Penalties and interest on taxes.....	221,868	-
Payment in lieu of taxes.....	-	-
Nonrestricted grants.....	9,155,899	-
Unrestricted investment income.....	633,706	-
Miscellaneous.....	65,378	-
<b>Total revenues.....</b>	<b>107,140,347</b>	<b>7,343,344</b>
<b>Expenses:</b>		
General Government.....	4,061,794	-
Public Safety.....	12,560,909	-
Education.....	39,448,395	-
Public Works.....	8,035,843	-
Property and natural resources.....	1,995,220	-
Community and Economic Development.....	5,626,899	-
Human Services.....	719,353	-
Library.....	1,738,054	-
Leisure Services.....	510,354	-
Pension benefits.....	11,755,931	-
Employee benefits.....	9,507,106	-
Interest.....	2,192,214	-
State and county charges.....	2,860,897	-
Water/Sewer.....	-	11,093,788
Youth Services.....	-	328,271
Council on Aging.....	-	83,130
Veterans' Rink.....	-	392,898
Recreation.....	-	303,025
<b>Total expenses.....</b>	<b>101,012,969</b>	<b>12,201,112</b>
<b>Transfers.....</b>	<b>(4,807,772)</b>	<b>4,807,772</b>
<b>Change in net assets.....</b>	<b>\$ 1,319,606</b>	<b>\$ (49,996)</b>

## **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 \$82,914,176 at the close of FY2003.

Net assets of \$54,824,740 (66%) 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 \$9,668,304 (12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$18,421,132 (22%) may be used to meet the government's ongoing obligations to citizens and creditors.

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.

There was a net decrease of (\$49,996) in net assets reported in connection with the Town's business-type activities. The water and sewer enterprise fund was subsidized by the general fund in fiscal year 2003 by approximately \$4.5 million, to offset a portion of the costs associated with the repayment of debt to the Massachusetts Water Resources Authority.

The governmental activities net assets increased by \$1,319,606 during the current fiscal year. Since this is the first year of reporting under GASB #34 no meaningful historical trends have been established to draw further conclusions.

## **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 \$24,300,693, a decrease of (\$7,498,617) from the prior year. Of this decrease, approximately (\$4,000,000) was the result of expenditures exceeding revenues in the Town's Capital Borrowing Funds. This was primarily due to current year expenditures of approximately \$3,000,000 in school construction projects and approximately \$2,200,000 on the Town's Reeds Brook park project.

These two major Town projects are more fully described under the Capital Asset and Debt Administration section of this report.

Of the remainder of the decrease in fund balance, approximately (\$1,600,000) is in the general fund, which was due primarily to a budgeted use of free cash of (\$2,718,151) from prior fiscal years and approximately (\$1,800,000) is related to activities in other non-major governmental funds.

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 \$2,294,235 which represents 2.5% of general fund expenditures. This fund may be used for general or capital purposes upon Town Meeting approval. Please refer to Note 8 for additional information on the Town's stabilization fund. The tip fee stabilization fund has a year end balance of \$5,439,131, which represents 6.0% of general fund expenditures. Please refer to Note 9 for additional information on the Town's tip fee stabilization fund.

The Capital Borrowing Funds had a deficit fund balance at June 30, 2003 of (\$5,957,495). This is due to expenditures on capital projects that have not been permanently financed through the issuance of bonds. As of June 30, 2003, the Town has temporarily financed these projects through the issuance of Bond Anticipation Notes (BAN's) of \$8,000,000.

### ***General Fund Budgetary Highlights***

Of the net decrease of \$337,836 between the original budget and the final amended budget, \$376,947 was a voted reduction in the original budget and \$39,111 was due to transfers between funds.

The Town Meeting voted at a Special Town Meeting in October 2002 to reduce the original budgets as a result of reductions in State Aid, which were not anticipated at the Annual Town Meeting.

Additionally in February 2003 Governor Mitt Romney was given authority by the State Legislature to institute "9C" cuts. The Governor reduced the amount of local aid to the Town by \$915,745.

The Town and School management froze hiring and expenditures to accommodate this reduction within existing revenues.

In an effort to increase revenues the methodology for calculating building permit fees was revised. Prior to this fiscal year, homeowners would submit an estimate of the cost of renovations for calculation of building permits. As of this fiscal year the building inspector is requiring a copy of the cost of construction as presented by the contractor. This has significantly increased the revenue generated.

The Town is in the process of setting policies as to use of free cash and other stabilization funds relative to future budgets.

### ***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, 2003, was \$48,205,000, 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
- 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 \$4,516,648 in fiscal year 2003 from the MWRA assessment to the property taxes. At this time the Town has not issued any other Town debt for water and sewer capital expenditures.

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. To date the Town, through the ARB, is managing the property, which has a medical office building on the property.

The Town of Arlington is in the process of renovating/replacing all of its 7 elementary schools. To date four schools have been completed, and three 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. Three of the completed schools have begun receiving the state reimbursement and one (Peirce School) is on the state reimbursement list pending future funding. The above capital borrowing was for work done on Peirce School and on additional renovations to the Hardy School.

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 \$7.4 million, has been funded from Community Development Block Grant, Federal Emergency Management Agency, State highway money and Town appropriations. It is anticipated that construction on the site will begin in next fiscal year.

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.

# ***Basic Financial Statements***

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**STATEMENT OF NET ASSETS**

JUNE 30, 2003

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and short-term investments.....	\$ 30,214,859	\$ 1,604,354	\$ 31,819,213
Investments.....	9,837,937	-	9,837,937
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	51,890	-	51,890
Real estate tax deferrals.....	247,856	-	247,856
Tax liens.....	317,178	-	317,178
Motor vehicle excise taxes.....	256,762	-	256,762
User fees.....	-	3,198,149	3,198,149
Departmental and other.....	45,000	-	45,000
Intergovernmental.....	4,209,454	-	4,209,454
Loans.....	943,332	-	943,332
Tax foreclosures.....	397,922	-	397,922
Investment in joint venture.....	1,003,667	-	1,003,667
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	20,256,975	-	20,256,975
Capital assets, net of accumulated depreciation.....	86,710,237	7,575,531	94,285,768
<b>TOTAL ASSETS.....</b>	<b>154,493,069</b>	<b>12,378,034</b>	<b>166,871,103</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	1,535,950	234,487	1,770,437
Accrued payroll.....	3,411,209	28,462	3,439,671
Health claims payable.....	890,000	-	890,000
Tax refunds payable.....	193,000	-	193,000
Accrued interest.....	574,808	-	574,808
Payroll withholdings.....	35,539	-	35,539
Abandoned property.....	17,928	-	17,928
Other liabilities.....	271,133	-	271,133
Customer deposits payable.....	4,926	-	4,926
Compensated absences.....	3,247,000	-	3,247,000
Workers' compensation.....	85,600	-	85,600
Bonds and notes payable.....	14,410,000	-	14,410,000
<b>NONCURRENT:</b>			
Compensated absences.....	1,607,000	-	1,607,000
Workers' compensation.....	999,800	-	999,800
Bonds and notes payable.....	44,295,000	-	44,295,000
<b>TOTAL LIABILITIES.....</b>	<b>71,578,893</b>	<b>262,949</b>	<b>71,841,842</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	54,824,740	7,575,531	62,400,271
Restricted for:			
Loans.....	943,332	-	943,332
Permanent funds:			
Expendable.....	3,302,740	-	3,302,740
Nonexpendable.....	2,893,422	-	2,893,422
Other specific purposes.....	2,528,810	-	2,528,810
Unrestricted.....	18,421,132	4,539,554	22,960,686
<b>TOTAL NET ASSETS.....</b>	<b>\$ 82,914,176</b>	<b>\$ 12,115,085</b>	<b>\$ 95,029,261</b>

See notes to basic financial statements.



**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 4,061,794	\$ 1,383,556	\$ 44,679	\$ -	\$ (2,633,559)
Public safety.....	12,560,909	2,394,602	832,248	-	(9,334,059)
Education.....	39,448,395	921,054	10,263,515	1,561,538	(26,702,288)
Public works.....	8,035,843	1,212,491	251,981	-	(6,571,371)
Property and natural resources.....	1,995,220	137,061	87,071	-	(1,771,088)
Community development.....	5,626,899	829,137	2,338,374	1,315,311	(1,144,077)
Human services.....	719,353	42,872	127,783	-	(548,698)
Library.....	1,738,054	3,023	111,474	-	(1,623,557)
Culture and recreation.....	510,354	225,591	238,865	-	(45,898)
Pension benefits.....	11,755,931	-	6,693,092	-	(5,062,839)
Employee benefits.....	9,507,106	-	-	-	(9,507,106)
Interest.....	2,192,214	-	1,044,747	-	(1,147,467)
State and county charges.....	2,860,897	-	-	-	(2,860,897)
<b>Total Governmental Activities.....</b>	<b>101,012,969</b>	<b>7,149,387</b>	<b>22,033,829</b>	<b>2,876,849</b>	<b>(68,952,904)</b>
<i>Business-Type Activities:</i>					
Water/Sewer.....	11,093,788	6,647,074	-	-	(4,446,714)
Youth Services.....	328,271	47,051	10,000	-	(271,220)
Council on Aging.....	83,130	15,101	68,661	-	632
Veterans' Rink.....	392,898	268,677	-	-	(124,221)
Recreation.....	303,025	286,780	-	-	(16,245)
<b>Total Business-Type Activities.....</b>	<b>12,201,112</b>	<b>7,264,683</b>	<b>78,661</b>	<b>-</b>	<b>(4,857,768)</b>
<b>Total Primary Government.....</b>	<b>\$ 113,214,081</b>	<b>\$ 14,414,070</b>	<b>\$ 22,112,490</b>	<b>\$ 2,876,849</b>	<b>\$ (73,810,672)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(68,952,904)</b>	\$ <b>(4,857,768)</b>	\$ <b>(73,810,672)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	60,321,682	-	60,321,682
Tax liens.....	130,035	-	130,035
Motor vehicle excise taxes.....	4,510,826	-	4,510,826
Hotel/motel tax.....	40,888	-	40,888
Penalties and interest on taxes.....	221,868	-	221,868
Grants and contributions not restricted to specific programs.....	9,155,899	-	9,155,899
Unrestricted investment income.....	633,706	-	633,706
Miscellaneous.....	65,378	-	65,378
<i>Transfers, net</i> .....	<u>(4,807,772)</u>	<u>4,807,772</u>	<u>-</u>
Total general revenues and transfers.....	<u>70,272,510</u>	<u>4,807,772</u>	<u>75,080,282</u>
Change in net assets.....	1,319,606	(49,996)	1,269,610
<i>Net Assets:</i>			
Beginning of year.....	<u>81,594,570</u>	<u>12,165,081</u>	<u>93,759,651</u>
End of year.....	\$ <u><u>82,914,176</u></u>	\$ <u><u>12,115,085</u></u>	\$ <u><u>95,029,261</u></u>

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2003

<b>ASSETS</b>	General	Capital Borrowing Funds	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments.....	\$ 14,040,708	\$ 2,352,995	\$ 13,821,156	\$ 30,214,859
Investments.....	2,792,781	-	7,045,156	9,837,937
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	51,890	-	-	51,890
Real estate tax deferrals.....	247,856	-	-	247,856
Tax liens.....	317,178	-	-	317,178
Motor vehicle excise taxes.....	256,762	-	-	256,762
Departmental and other.....	45,000	-	-	45,000
Intergovernmental.....	21,600,000	-	2,866,429	24,466,429
Loans.....	-	-	943,332	943,332
Tax foreclosures.....	397,922	-	-	397,922
Investment in joint venture.....	-	-	1,003,667	1,003,667
<b>TOTAL ASSETS.....</b>	<b>\$ 39,750,097</b>	<b>\$ 2,352,995</b>	<b>\$ 25,679,740</b>	<b>\$ 67,782,832</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 832,153	\$ 310,490	\$ 393,307	\$ 1,535,950
Accrued payroll.....	3,377,382	-	33,827	3,411,209
Health claims payable.....	890,000	-	-	890,000
Tax refunds payable.....	193,000	-	-	193,000
Liabilities due depositors.....	4,926	-	-	4,926
Payroll withholdings.....	35,539	-	-	35,539
Abandoned property.....	17,928	-	-	17,928
Other liabilities.....	271,133	-	-	271,133
Deferred revenues.....	22,844,608	-	3,777,846	26,622,454
Notes payable.....	-	8,000,000	2,500,000	10,500,000
<b>TOTAL LIABILITIES.....</b>	<b>28,466,669</b>	<b>8,310,490</b>	<b>6,704,980</b>	<b>43,482,139</b>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances and continuing appropriations.....	3,491,724	-	-	3,491,724
Loans.....	-	-	943,332	943,332
Perpetual permanent funds.....	-	-	2,893,422	2,893,422
Unreserved:				
Designated for municipal insurance.....	3,510,381	-	-	3,510,381
Designated for subsequent year's expenditures.....	1,774,342	-	-	1,774,342
Undesignated, reported in:				
General fund.....	2,506,981	-	-	2,506,981
Special revenue funds.....	-	-	11,124,950	11,124,950
Capital projects funds.....	-	(5,957,495)	710,316	(5,247,179)
Permanent funds.....	-	-	3,302,740	3,302,740
<b>TOTAL FUND BALANCES.....</b>	<b>11,283,428</b>	<b>(5,957,495)</b>	<b>18,974,760</b>	<b>24,300,693</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 39,750,097</b>	<b>\$ 2,352,995</b>	<b>\$ 25,679,740</b>	<b>\$ 67,782,832</b>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2003

Total governmental fund balances.....		\$ 24,300,693
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		86,710,237
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		26,622,454
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(574,808)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(48,205,000)	
Workers compensation.....	(1,085,400)	
Compensated absences.....	(4,854,000)	
	(54,144,400)	
Net effect of reporting long-term liabilities.....		(54,144,400)
Net assets of governmental activities.....		\$ 82,914,176

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2003

	General	Capital Borrowing Funds	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 60,231,926	\$ -	\$ -	\$ 60,231,926
Tax liens.....	129,406	-	-	129,406
Motor vehicle excise taxes.....	4,064,628	-	-	4,064,628
Hotel/motel tax.....	40,888	-	-	40,888
Intergovernmental.....	23,547,304	1,215,344	6,778,595	31,541,243
Departmental and other.....	3,336,948	-	4,005,560	7,342,508
Contributions.....	-	-	1,106,442	1,106,442
Investment income.....	509,834	21,532	422,767	954,133
Miscellaneous.....	-	-	58,400	58,400
<b>TOTAL REVENUES.....</b>	<b>91,860,934</b>	<b>1,236,876</b>	<b>12,371,764</b>	<b>105,469,574</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	3,684,395	2,541,743	317,289	6,543,427
Public safety.....	10,808,063	154,394	1,409,375	12,371,832
Education.....	33,441,606	3,163,360	4,766,030	41,370,996
Public works.....	7,075,393	604,716	1,029,366	8,709,475
Property and natural resources.....	1,448,234	28,373	518,613	1,995,220
Community development.....	563,852	515,675	4,547,372	5,626,899
Human services.....	559,297	-	220,988	780,285
Library.....	1,619,355	-	118,699	1,738,054
Culture and recreation.....	-	-	281,257	281,257
Pension benefits.....	11,755,931	-	-	11,755,931
Employee benefits.....	9,573,706	-	-	9,573,706
State and county charges.....	2,860,897	-	-	2,860,897
Debt service:				
Principal.....	4,290,000	-	-	4,290,000
Interest.....	2,262,440	-	-	2,262,440
<b>TOTAL EXPENDITURES.....</b>	<b>89,943,169</b>	<b>7,008,261</b>	<b>13,208,989</b>	<b>110,160,419</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>1,917,765</b>	<b>(5,771,385)</b>	<b>(837,225)</b>	<b>(4,690,845)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from bonds and notes.....	-	2,000,000	-	2,000,000
Transfers in.....	1,563,630	55,000	1,229,373	2,848,003
Transfers out.....	(5,054,289)	(378,531)	(2,222,955)	(7,655,775)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(3,490,659)</b>	<b>1,676,469</b>	<b>(993,582)</b>	<b>(2,807,772)</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(1,572,894)</b>	<b>(4,094,916)</b>	<b>(1,830,807)</b>	<b>(7,498,617)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>12,856,322</b>	<b>(1,862,579)</b>	<b>20,805,567</b>	<b>31,799,310</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 11,283,428</b>	<b>\$ (5,957,495)</b>	<b>\$ 18,974,760</b>	<b>\$ 24,300,693</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds..... \$ (7,498,617)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	6,007,236	
Depreciation expense.....	<u>(2,332,612)</u>	
Net effect of reporting capital assets.....		3,674,624

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue..... 1,670,773

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Proceeds from bonds and notes.....	(2,000,000)	
Debt service principal payments.....	<u>4,290,000</u>	
Net effect of reporting long-term debt.....		2,290,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	1,046,000	
Net change in accrued interest on long-term debt.....	70,226	
Net change in worker's compensation accrual.....	<u>66,600</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>1,182,826</u>

Change in net assets of governmental activities..... \$ 1,319,606

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2003

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer Enterprise</u>	<u>Youth Services Enterprise</u>	<u>Council On Aging Enterprise</u>
<b>ASSETS</b>			
CURRENT:			
Cash and short-term investments.....	\$ 1,486,086	\$ 11,172	\$ 107,096
Receivables, net of allowance for uncollectibles:			
User fees.....	<u>3,198,149</u>	<u>-</u>	<u>-</u>
Total current assets.....	<u>4,684,235</u>	<u>11,172</u>	<u>107,096</u>
NONCURRENT:			
Capital assets, net of accumulated depreciation.....	<u>7,445,905</u>	<u>-</u>	<u>24,288</u>
TOTAL ASSETS.....	<u>12,130,140</u>	<u>11,172</u>	<u>131,384</u>
<b>LIABILITIES</b>			
CURRENT:			
Warrants payable.....	216,074	97	2,878
Accrued payroll.....	<u>10,654</u>	<u>5,940</u>	<u>840</u>
Total current liabilities.....	<u>226,728</u>	<u>6,037</u>	<u>3,718</u>
TOTAL LIABILITIES.....	<u>226,728</u>	<u>6,037</u>	<u>3,718</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	7,445,905	-	24,288
Unrestricted.....	<u>4,457,507</u>	<u>5,135</u>	<u>103,378</u>
TOTAL NET ASSETS.....	<u>\$ 11,903,412</u>	<u>\$ 5,135</u>	<u>\$ 127,666</u>

See notes to basic financial statements.

Veterans' Rink Enterprise	Recreation Enterprise	Total
\$ -	\$ -	\$ 1,604,354
<u>-</u>	<u>-</u>	<u>3,198,149</u>
<u>-</u>	<u>-</u>	<u>4,802,503</u>
<u>83,255</u>	<u>22,083</u>	<u>7,575,531</u>
<u>83,255</u>	<u>22,083</u>	<u>12,378,034</u>
15,438	-	234,487
<u>203</u>	<u>10,825</u>	<u>28,462</u>
<u>15,641</u>	<u>10,825</u>	<u>262,949</u>
<u>15,641</u>	<u>10,825</u>	<u>262,949</u>
83,255	22,083	7,575,531
<u>(15,641)</u>	<u>(10,825)</u>	<u>4,539,554</u>
<u>\$ 67,614</u>	<u>\$ 11,258</u>	<u>\$ 12,115,085</u>



**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2003

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer Enterprise</u>	<u>Youth Services Enterprise</u>	<u>Council On Aging Enterprise</u>
<b><u>OPERATING REVENUES:</u></b>			
Charges for services .....	\$ 6,632,481	\$ 47,051	\$ 15,912
Contributions.....	<u>-</u>	<u>10,000</u>	<u>-</u>
TOTAL OPERATING REVENUES .....	<u>6,632,481</u>	<u>57,051</u>	<u>15,912</u>
<b><u>OPERATING EXPENSES:</u></b>			
Cost of services and administration .....	10,845,672	328,271	77,069
Depreciation.....	<u>248,116</u>	<u>-</u>	<u>6,061</u>
TOTAL OPERATING EXPENSES .....	<u>11,093,788</u>	<u>328,271</u>	<u>83,130</u>
OPERATING INCOME (LOSS).....	<u>(4,461,307)</u>	<u>(271,220)</u>	<u>(67,218)</u>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>			
Investment income.....	14,593	-	-
Intergovernmental.....	<u>-</u>	<u>-</u>	<u>67,850</u>
TOTAL NONOPERATING REVENUES, (EXPENSES), NET.....	<u>14,593</u>	<u>-</u>	<u>67,850</u>
INCOME (LOSS) BEFORE TRANSFERS.....	<u>(4,446,714)</u>	<u>(271,220)</u>	<u>632</u>
<b><u>TRANSFERS:</u></b>			
Transfers in.....	<u>4,516,648</u>	<u>288,124</u>	<u>-</u>
CHANGE IN NET ASSETS.....	69,934	16,904	632
NET ASSETS AT BEGINNING OF YEAR.....	<u>11,833,478</u>	<u>(11,769)</u>	<u>127,034</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 11,903,412</u>	<u>\$ 5,135</u>	<u>\$ 127,666</u>

See notes to basic financial statements.

	Veterans' Rink Enterprise	Recreation Enterprise	Total
\$	268,677	\$ 286,780	\$ 7,250,901
	-	-	10,000
	<u>268,677</u>	<u>286,780</u>	<u>7,260,901</u>
	384,282	298,283	11,933,577
	<u>8,616</u>	<u>4,742</u>	<u>267,535</u>
	<u>392,898</u>	<u>303,025</u>	<u>12,201,112</u>
	<u>(124,221)</u>	<u>(16,245)</u>	<u>(4,940,211)</u>
	-	-	14,593
	-	-	<u>67,850</u>
	-	-	<u>82,443</u>
	<u>(124,221)</u>	<u>(16,245)</u>	<u>(4,857,768)</u>
	<u>533</u>	<u>2,467</u>	<u>4,807,772</u>
	(123,688)	(13,778)	(49,996)
	<u>191,302</u>	<u>25,036</u>	<u>12,165,081</u>
\$	<u><u>67,614</u></u>	<u><u>11,258</u></u>	<u><u>\$ 12,115,085</u></u>

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2003

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Receipts from customers and users.....	\$ 6,578,295	\$ 57,051	\$ 15,912
Payments to vendors.....	(9,452,214)	(13,169)	(29,502)
Payments to employees.....	(1,551,070)	(320,834)	(49,539)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>(4,424,989)</b>	<b>(276,952)</b>	<b>(63,129)</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>			
Transfers in.....	4,516,648	288,124	-
Intergovernmental subsidy.....	-	-	67,850
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>4,516,648</b>	<b>288,124</b>	<b>67,850</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>			
Acquisition and construction of capital assets.....	(1,702,896)	-	-
Principal payments on bonds and notes.....	(191,313)	-	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(1,894,209)</b>	<b>-</b>	<b>-</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>			
Investment income.....	14,593	-	-
<b>NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....</b>	<b>(1,787,957)</b>	<b>11,172</b>	<b>4,721</b>
<b>CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....</b>	<b>3,274,043</b>	<b>-</b>	<b>102,375</b>
<b>CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....</b>	<b>\$ 1,486,086</b>	<b>\$ 11,172</b>	<b>\$ 107,096</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>			
Operating income (loss).....	\$ (4,461,307)	\$ (271,220)	\$ (67,218)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	248,116	-	6,061
Changes in assets and liabilities:			
User fees.....	(54,186)	-	-
Warrants payable.....	(158,617)	(1,140)	(1,976)
Accrued payroll.....	1,005	(1,328)	4
Due to other funds.....	-	(3,264)	-
Total adjustments.....	36,318	(5,732)	4,089
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ (4,424,989)</b>	<b>\$ (276,952)</b>	<b>\$ (63,129)</b>

See notes to basic financial statements.

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Veterans' Rink Enterprise	Recreation Enterprise	Total
\$ 268,677	\$ 286,780	\$ 7,206,715
(291,826)	(52,113)	(9,838,824)
<u>(81,238)</u>	<u>(241,362)</u>	<u>(2,244,043)</u>
<u>(104,387)</u>	<u>(6,695)</u>	<u>(4,876,152)</u>
533	2,467	4,807,772
-	-	67,850
<u>533</u>	<u>2,467</u>	<u>4,875,622</u>
-	-	(1,702,896)
-	-	(191,313)
-	-	(1,894,209)
-	-	14,593
(103,854)	(4,228)	(1,880,146)
<u>103,854</u>	<u>4,228</u>	<u>3,484,500</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,604,354</u>

\$ (124,221)	\$ (16,245)	\$ (4,940,211)
8,616	4,742	267,535
-	-	(54,186)
14,276	(916)	(148,373)
(3,058)	5,724	2,347
-	-	(3,264)
<u>19,834</u>	<u>9,550</u>	<u>64,059</u>
<u>\$ (104,387)</u>	<u>\$ (6,695)</u>	<u>\$ (4,876,152)</u>

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2003

	Pension Trust Fund (as of December 31, 2002)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
CURRENT:			
Cash and short-term investments.....	\$ 67,644,336	\$ 215,362	\$ 52,914
Investments.....	26,223,109	3,605,331	-
Interest and dividends.....	314,738	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	190	-	-
<b>TOTAL ASSETS</b> .....	<b>94,182,373</b>	<b>3,820,693</b>	<b>52,914</b>
<b>LIABILITIES</b>			
Warrants payable.....	-	313	3,011
Liabilities due depositors.....	-	-	49,903
<b>TOTAL LIABILITIES</b> .....	<b>-</b>	<b>313</b>	<b>52,914</b>
<b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes.....	\$ <u>94,182,373</u>	\$ <u>3,820,380</u>	\$ <u>-</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2003

	Pension Trust Fund (as of December 31, 2002)	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Employer.....	\$ 5,321,836	\$ -
Employee.....	2,070,829	-
Private donations.....	-	284,092
<b>Total contributions.....</b>	<b>7,392,665</b>	<b>284,092</b>
Net investment income (loss):		
Net change in fair value of investments.....	(15,608,433)	-
Interest.....	2,004,904	115,525
<b>Total investment income (loss).....</b>	<b>(13,603,529)</b>	<b>115,525</b>
Less: investment expense.....	(432,481)	-
Net investment income (loss).....	(14,036,010)	115,525
Intergovernmental.....	687,258	-
Transfers from other systems.....	174,528	-
<b>TOTAL ADDITIONS.....</b>	<b>(5,781,559)</b>	<b>399,617</b>
<b>DEDUCTIONS:</b>		
Administration.....	143,072	-
Transfers to other systems.....	173,861	-
Retirement benefits and refunds.....	10,953,002	-
Human services.....	-	6,673
Educational scholarships.....	-	344,198
<b>TOTAL DEDUCTIONS.....</b>	<b>11,269,935</b>	<b>350,871</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>(17,051,494)</b>	<b>48,746</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>111,233,867</b>	<b>3,771,634</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 94,182,373</b>	<b>\$ 3,820,380</b>

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Arlington, Massachusetts (the 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 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 7<sup>th</sup> Massachusetts Congressional District, 4<sup>th</sup> Middlesex State Senatorial District, and the 25<sup>th</sup> and 26<sup>th</sup> 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 basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

*Blended Component Units* – Blended component units are entities that are legally separate from the Town, but are so related 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 following component unit is blended within the primary government:

In the Fiduciary Funds:

The Arlington Contributory Retirement System (the System) was established to provide retirement benefits to Town employees and their beneficiaries. The System is governed by a five-member 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.

**Availability of Financial Information for Component Units**

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts’ (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 869 Massachusetts Avenue, Room 102, Arlington, MA 02476-4701.

*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, 2003, the

Town's equity interest in the operation of NESWC is \$1,003,667, which is recorded as a receivable in the Tip Fee Stabilization Fund classified as a Nonmajor Governmental Fund in the financial statements. Complete financial statements for NESWC can be obtained directly from their administrative office located at 3 Burlington Woods Park, Burlington, MA 01803.

## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

### *Fund Financial Statements*

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

#### *Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

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

### *Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and water and sewer enterprise fund. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

#### *Fund Financial Statements*

**Governmental** fund financial statements are reported using 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 judgments 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 fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received 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 is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *capital borrowing fund* is a capital project fund used to account for the Town's annual capital appropriations that are budgeted to be financed through long-term borrowing.

The nonmajor governmental funds consist of special revenue, other capital projects, and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) 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 enterprise and trust funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

**Proprietary** fund financial statements are reported using 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 when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water and sewer enterprise fund* is used to account for the water and sewer activities.

The *youth services fund* is used to account for the youth services activities.

The *council on aging fund* is used to account for the council on aging activities.

The *veterans' rink fund* is used to account for the veterans' rink activities.

The *recreation fund* is used to account for the recreation activities.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

*Government-Wide and Fund Financial Statements*

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments*Government-Wide and Fund Financial Statements*

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.

E. Accounts Receivable*Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

***Real Estate, Personal Property Taxes and Tax Liens***

Property taxes are levied and based on values assessed on January 1<sup>st</sup> 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 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Tax liens are processed during the fourth quarter of every fiscal year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

***Motor Vehicle Excise***

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

**User Fees**

Water and sewer user fees 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 user fees are recorded as receivables in the fiscal year of the levy and an unbilled estimate.

Water and sewer user fees are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

**Departmental and Other**

Departmental and other receivables consist primarily of reimbursements for veteran's services, rubbish collection fees, and fire alarm renewal fees and are recorded as receivables in the fiscal year accrued.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

**Intergovernmental**

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Loans**

The Department of Planning and Community Development administers loan programs that provide housing assistance to residents. Upon issuance, a receivable is recorded for the principal amount of the loan.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

**F. Inventories*****Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

**G. Capital Assets*****Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Construction period interest is capitalized on

constructed capital assets except for the capital assets of the governmental activities column in the government-wide financial statements.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	50
Buildings.....	50
Vehicles.....	10
Machinery and equipment.....	10
Infrastructure.....	20
Sewer and water lines.....	60

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

*Government-Wide Financial Statements*

Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as “internal balances”.

*Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

*Government-Wide Financial Statements*

Operating transfers between and within governmental funds and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

*Fund Financial Statements*

Operating transfers between and within funds are *not* eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted for" the following:

"Loans" represents community development outstanding loans receivable balances.

"Permanent funds - expendable" represents the expendable resources generated by amounts held in trust which stipulate that only earnings may be used for purposes that support governmental programs.

"Permanent funds - nonexpendable" represents the permanently restricted portion of amounts held in trust which stipulate that only earnings may be used for purposes that support governmental programs.

"Other specific purposes" represents restrictions placed on assets from outside parties.

*Fund Financial Statements (Fund Balances)*

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

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 community development outstanding loans receivable balances.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

Fund balances have been “designated for” the following:

“Municipal insurance” represents the amounts the Town has designated for employee healthcare self-insurance. “Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2004 operating budget.

#### L. Long-term debt

##### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

##### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

#### M. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL). Investment income from the enterprise funds (except the water and sewer enterprise fund) is voluntarily assigned and transferred to the general fund.

#### N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

##### *Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

##### *Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

#### O. Post Retirement Benefits

##### *Government-Wide and Fund Financial Statements*

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance

is recognized by recording the employer's 75-90% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2003, this expense/expenditure totaled approximately \$2,600,000. There were approximately 900 participants eligible to receive benefits at June 30, 2003.

The Commonwealth of Massachusetts administers a health insurance plan for all retired teachers of the Commonwealth. The cost of providing that benefit is assessed to each community annually. For the fiscal year ending June 30, 2003 this expense/expenditure amounted to \$4,114. The number of participants covered is not provided by the Commonwealth.

#### P. Fund Deficits

Several individual fund deficits exist at June 30, 2003, within the special revenue funds classified as non-major governmental funds and within the capital borrowing funds classified as a major governmental fund. These deficits will be funded through available funds and grants during fiscal year 2004.

At June 30, 2003, the Veterans' Rink enterprise fund had a deficit of \$15,641 and the recreation enterprise fund had a deficit of \$10,825. These deficits will be funded through available funds.

#### Q. Use of Estimates

##### *Government-Wide and Fund Financial Statements*

The preparation of basic 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 basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

#### R. Total Column

##### *Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

##### *Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

## **NOTE 2 - CASH AND INVESTMENTS**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Short-term Investments". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment 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 (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.



The Pool 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 who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Short-term investments and 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.

At fiscal year-end, the carrying amount of deposits totaled \$23,486,755 and the bank balance totaled \$27,167,058. Of the bank balance, \$400,000 was covered by Federal Depository Insurance, \$7,017,279 was covered by the Depositors Insurance Fund, and \$19,749,779 was uninsured and uncollateralized. At December 31, 2002, the carrying amount of deposits for the System totaled \$19,040 and the bank balance of \$227,317 was covered by Federal Depository Insurance.

The following details the carrying amount of cash and short-term investments and investments as reported in the basic financial statements at June 30, 2003:

	Cash and Short-term Investments	Investments	Total
<b>Cash balances (excluding the System) at June 30, 2003:</b>			
Checking, savings and NOW accounts.....	\$ 9,599,926	\$ -	\$ 9,599,926
Certificates of deposit.....	7,110,585	-	7,110,585
Money market deposits.....	6,776,244	-	6,776,244
	<u>23,486,755</u>	<u>-</u>	<u>23,486,755</u>
<u>Investments not subject to categorization:</u>			
MMDT.....	1,762,990	-	1,762,990
Money market mutual funds.....	248,847	-	248,847
<u>Investments subject to categorization (Category 3):</u>			
Equity securities.....	-	13,443,268	13,443,268
Repurchase agreements.....	6,588,897	-	6,588,897
	<u>8,600,734</u>	<u>13,443,268</u>	<u>22,044,002</u>
Total cash and short-term investments and investments of the Town at June 30, 2003.....	<u>32,087,489</u>	<u>13,443,268</u>	<u>45,530,757</u>
<b>System cash balances at December 31, 2002:</b>			
Checking, savings and NOW accounts.....	19,040	-	19,040
<u>Investments not subject to categorization:</u>			
Mutual funds.....	66,510,068	-	66,510,068
Alternative investments.....	439,016	-	439,016
Money market mutual funds.....	676,212	-	676,212
<u>Investments subject to categorization (Category 3):</u>			
Fixed income securities.....	-	26,223,109	26,223,109
	<u>67,625,296</u>	<u>26,223,109</u>	<u>93,848,405</u>
Total cash and short-term investments and investments of the System at December 31, 2002.....	<u>67,644,336</u>	<u>26,223,109</u>	<u>93,867,445</u>
Total cash and short-term investments and investments.....	<u>\$ 99,731,825</u>	<u>\$ 39,666,377</u>	<u>\$ 139,398,202</u>

**NOTE 3 - RECEIVABLES**

At June 30, 2003, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

**GOVERNMENTAL FUND RECEIVABLES**

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 51,890	\$ -	\$ 51,890
Real estate tax deferrals.....	247,856	-	247,856
Tax liens.....	317,178	-	317,178
Motor vehicle and other excise taxes.....	705,351	(448,589)	256,762
Departmental and other.....	79,155	(34,155)	45,000
Intergovernmental.....	24,466,429	-	24,466,429
Loans.....	943,332	-	943,332
 Total.....	 <u>\$ 26,811,191</u>	 <u>\$ (482,744)</u>	 <u>\$ 26,328,447</u>

At June 30, 2003, receivables for the proprietary funds consist of the following:

**ENTERPRISE FUND RECEIVABLES**

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer fees.....	\$ 3,198,149	\$ -	\$ 3,198,149

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 227,746	\$ -	\$ 227,746
Tax Liens.....	317,178	-	317,178
Motor vehicle excise taxes.....	256,762	-	256,762
Departmental.....	45,000	-	45,000
State School Construction Funds.....	21,600,000	-	21,600,000
Tax Foreclosures.....	397,922	-	397,922
Community Development Entitlements.....	-	2,664,253	2,664,253
State Highway Funds (Chapter 90).....	-	1,113,593	1,113,593
 Total.....	 <u>\$ 22,844,608</u>	 <u>\$ 3,777,846</u>	 <u>\$ 26,622,454</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,525,593	\$ -	\$ -	\$ 10,525,593
Construction in progress.....	2,105,991	2,494,009	-	4,600,000
Total capital assets not being depreciated.....	<u>12,631,584</u>	<u>2,494,009</u>	-	<u>15,125,593</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	92,306,678	2,307,886	-	94,614,564
Improvements.....	2,006,993	-	-	2,006,993
Vehicles and equipment.....	6,261,003	506,289	-	6,767,292
Infrastructure.....	-	699,052	-	699,052
Total capital assets being depreciated.....	<u>100,574,674</u>	<u>3,513,227</u>	-	<u>104,087,901</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	25,923,753	1,745,820	-	27,669,573
Improvements.....	445,703	90,029	-	535,732
Vehicles and equipment.....	3,801,189	496,763	-	4,297,952
Total accumulated depreciation.....	<u>30,170,645</u>	<u>2,332,612</u>	-	<u>32,503,257</u>
Total capital assets being depreciated, net.....	<u>70,404,029</u>	<u>1,180,615</u>	-	<u>71,584,644</u>
Total governmental activities capital assets, net.....	<u>\$ 83,035,613</u>	<u>\$ 3,674,624</u>	<u>\$ -</u>	<u>\$ 86,710,237</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,954	\$ -	\$ -	\$ 2,954
<u>Capital assets being depreciated:</u>				
Buildings.....	730,566	-	-	730,566
Improvements.....	65,420	-	-	65,420
Vehicles and equipment.....	940,876	-	-	940,876
Infrastructure.....	6,586,991	1,702,896	-	8,289,887
Total capital assets being depreciated.....	8,323,853	1,702,896	-	10,026,749
<u>Less accumulated depreciation for:</u>				
Buildings.....	54,792	12,176	-	66,968
Improvements.....	-	3,221	-	3,221
Vehicles and equipment.....	525,223	128,280	-	653,503
Infrastructure.....	1,606,622	123,858	-	1,730,480
Total accumulated depreciation.....	2,186,637	267,535	-	2,454,172
Total capital assets being depreciated, net.....	6,137,216	1,435,361	-	7,572,577
Total business-type activities capital assets, net.....	\$ 6,140,170	\$ 1,435,361	\$ -	\$ 7,575,531

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General government.....	\$ 68,376
Public safety.....	214,307
Education.....	1,460,791
Public works.....	296,677
Human services.....	3,068
Culture and recreation.....	289,393

Total depreciation expense - governmental activities..... \$ 2,332,612

**Business-Type Activities:**

Public works.....	\$ 248,116
Human services.....	6,061
Culture and recreation.....	13,358

Total depreciation expense - business-type activities..... \$ 267,535

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2003, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:							Total
	General Fund	Capital Borrowing Fund	Nonmajor Governmental Funds	Water and Sewer Enterprise Fund	Youth Services Enterprise Fund	Veterans' Rink Enterprise Fund	Recreation Enterprise Fund	
General Fund.....	\$ -	\$ -	\$ 256,854	\$ 4,516,648	\$ 277,787	\$ 533	\$ 2,467	\$ 5,054,289
Capital Borrowing Fund.....	-	49,493	329,038	-	-	-	-	378,531
Nonmajor Governmental Funds....	1,563,630	5,507	643,481	-	10,337	-	-	2,222,955
<b>Total.....</b>	<b>\$ 1,563,630</b>	<b>\$ 55,000</b>	<b>\$ 1,229,373</b>	<b>\$ 4,516,648</b>	<b>\$ 288,124</b>	<b>\$ 533</b>	<b>\$ 2,467</b>	<b>\$ 7,655,775</b>

**NOTE 6 - SHORT-TERM FINANCING**

Short-term debt may be authorized and issued 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 and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the General Fund and Enterprise Funds, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2003, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2002	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2003
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	-
BAN	* Various Capital Projects.....	0.90	08/19/03	-	2,000,000	2,000,000	-
BAN	Symmes Property.....	1.47	04/08/04	-	2,500,000	-	2,500,000
BAN	Symmes Property.....	1.12	04/08/04	-	8,000,000	-	8,000,000
				<b>\$ 9,000,000</b>	<b>\$ 12,500,000</b>	<b>\$ 11,000,000</b>	<b>\$ 10,500,000</b>

\* At June 30, 2003, the Town had an additional \$2,000,000 of BANS outstanding for various municipal projects. On August 15, 2003, the Town issued \$7,392,000 of general obligation bonds of which \$2,000,000 was used to retire the outstanding BANS. Accordingly, the Town has recorded the \$2,000,000 as a permanently financed long-term liability in fiscal year 2003.

**NOTE 7 - LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 2 1/2% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2003, and the debt service requirements for governmental funds are as follows:

***Bonds and Notes Payable - Governmental Funds***

Project	Interest Rate (%)	Outstanding at June 30, 2002	Issued	Redeemed	Outstanding at June 30, 2003
Municipal Purpose - 1992.....	4.7	\$ 360,000	\$ -	\$ 360,000	\$ -
Municipal Purpose - 1993.....	3.59	245,000	-	125,000	120,000
Municipal Purpose - 1996.....	4.33	1,040,000	-	275,000	765,000
Municipal Purpose - 1997.....	5.16	4,940,000	-	270,000	4,670,000
Municipal Purpose - 1997.....	5.22	4,125,000	-	275,000	3,850,000
Municipal Purpose - 1999.....	4.00 - 6.00	15,430,000	-	1,125,000	14,305,000
Municipal Purpose - 2000.....	5.1	7,335,000	-	565,000	6,770,000
Municipal Purpose - 2002.....	3.75 - 4.88	17,020,000	-	1,295,000	15,725,000
Municipal Purpose - 2003.....	4.5	-	7,392,000	-	7,392,000
subtotal.....		50,495,000	7,392,000	4,290,000	53,597,000
Less amounts issued in fiscal year 2004..... (1)		-	(5,392,000)	-	(5,392,000)
Total governmental bonds payable.....		\$ 50,495,000	\$ 2,000,000	\$ 4,290,000	\$ 48,205,000

(1) Subsequent to year end, the Town issued \$7,392,000 in general obligation bonds for various municipal purposes. Of these bonds, \$2,000,000 was used to retire BAN's outstanding at June 30, 2003. Accordingly, the \$2,000,000 has been recorded as permanently financed in fiscal year 2003.

Debt service requirements for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004.....	\$ 3,910,000	\$ 2,205,143	\$ 6,115,143
2005.....	4,562,000	2,151,233	6,713,233
2006.....	4,455,000	1,979,720	6,434,720
2007.....	3,990,000	1,812,085	5,802,085
2008.....	3,930,000	1,655,238	5,585,238
2009.....	3,465,000	1,497,731	4,962,731
2010.....	3,230,000	1,348,522	4,578,522
2011.....	3,135,000	1,206,757	4,341,757
2012.....	3,010,000	1,064,445	4,074,445
2013.....	2,950,000	925,822	3,875,822
2014.....	2,935,000	785,987	3,720,987
2015.....	2,930,000	645,445	3,575,445
2016.....	2,945,000	502,427	3,447,427
2017.....	2,965,000	356,965	3,321,965
2018.....	1,960,000	228,846	2,188,846
2019.....	945,000	144,541	1,089,541
2020.....	890,000	102,170	992,170
2021.....	880,000	60,555	940,555
2022.....	175,000	18,801	193,801
2023.....	175,000	11,014	186,014
2024.....	160,000	3,560	163,560
	<u>\$ 53,597,000</u>	<u>\$ 18,707,007</u>	<u>\$ 72,304,007</u>

Details related to the outstanding indebtedness at June 30, 2003, and the debt service requirements for the Enterprise Funds are as follows:

**Bonds and Notes Payable - Enterprise Funds**

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2002</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2003</u>
Financial Assistance Bond - MWRA.....	-	\$ 30,150	\$ -	\$ 30,150	\$ -
Water Infrastructure Bond - MWRA.....	-	77,583	-	77,583	-
Financial Assistance Bond - MWRA.....	-	<u>83,580</u>	<u>-</u>	<u>83,580</u>	<u>-</u>
Total enterprise fund bonds and notes payable.....		<u>\$ 191,313</u>	<u>\$ -</u>	<u>\$ 191,313</u>	<u>\$ -</u>

The Commonwealth 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 2003, approximately \$1,343,000 of such assistance was received. Approximately \$30,650,000 will be received in future fiscal years. Of this amount, approximately \$9,050,000 represents reimbursement of long-term interest costs, and approximately \$21,600,000 represents reimbursement of approved construction costs. Accordingly, a \$21,600,000 intergovernmental receivable and



corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2003, the Town had the following authorized and unissued debt:

Purpose	Amount
Suburban renewal.....	\$ 14,000,000
School construction.....	10,549,000
Sewer and water facilities.....	3,616,429
Reeds Brook project.....	2,340,000
Capital equipment.....	1,424,020
Administrative fees.....	30,000
Total.....	<u>\$ 31,959,449</u>

Changes in long-term liabilities

During the fiscal year ended June 30, 2003, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-Term Bonds and Notes.....	\$ 50,495,000	\$ 2,000,000	\$ (4,290,000)	\$ 48,205,000	\$ 3,910,000
Workers' Compensation.....	1,152,000	-	(66,600)	1,085,400	85,600
Compensated Absences.....	5,900,000	-	(1,046,000)	4,854,000	3,247,000
Total.....	<u>\$ 57,547,000</u>	<u>\$ 2,000,000</u>	<u>\$ (5,402,600)</u>	<u>\$ 54,144,400</u>	<u>\$ 7,242,600</u>

**NOTE 8 - STABILIZATION FUND**

At June 30, 2003, the Town has \$2,294,235 in a stabilization fund, which is classified as a special revenue fund within the nonmajor governmental funds in the fund-based basic financial statements. The Town may use the stabilization fund for general and/or capital purposes upon Town Meeting approval.

**NOTE 9 - TIP FEE STABLIZATION 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 \$5,439,131 in the tip fee stabilization fund at June 30, 2003, which is recorded as a special revenue fund within the nonmajor governmental funds in the fund-based basic financial statements. The activity of the fund in fiscal year 2003 consists of the following:

Fund balance at June 30, 2002.....	\$ 6,189,003
Proceeds from the sale of excess tonnage capacity, recycled materials, disposal of solid waste and other revenues from NESWC.....	668,960
Investment income.....	53,923
Transfer to the general fund.....	<u>(1,472,755)</u>
Fund balance at June 30, 2003.....	<u>\$ 5,439,131</u>

**NOTE 10 - 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.

The Town is self-insured for its health insurance and workers' compensation 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.

(a) *Health Insurance*

The estimate of Incurred But Not Reported (IBNR) claims based on a two-month claims paid average for six months prior to fiscal year-end. At June 30, 2003, the amount of the liability for health insurance claims totaled \$1,306,000. The health claims payable of \$890,000, reported on the balance sheet and statement of net assets, represents the \$1,306,000 IBNR, less a \$416,000 settlement of known claims for the fourth quarter of fiscal year 2003. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2001, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2002.....	\$ 965,000	\$	6,721,410	\$	(6,738,410)	\$	948,000
Fiscal Year 2003.....	948,000		7,767,015		(7,409,015)		1,306,000

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 \$382,010 in the fund at June 30, 2003, and is reported as a special revenue fund within the nonmajor governmental funds in the fund-based basic financial statements.

(b) *Workers' Compensation*

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2003, the amount of the liability for workers' compensation claims totaled \$1,085,400. 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
Fiscal Year 2003.....	1,152,000	164,783	(231,383)	1,085,400

**NOTE 11 - 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 public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$6,693,000 for the fiscal year ended June 30, 2003, 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 plan. 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 Arlington Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 869 Massachusetts Avenue, Room 102, Arlington, MA 02476-4701.

At December 31, 2002, the System's membership consists of the following:

Active members.....	762
Inactive members.....	104
Retirees and beneficiaries currently receiving benefits.....	<u>609</u>
Total.....	<u><u>1,475</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 that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 96% of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

*Annual Pension Cost* - The Town's contributions to the System for the fiscal years ended June 30, 2003, 2002, and 2001 were \$5,231,836, \$5,015,780 and \$4,932,159 respectively, which equaled its required contribution for each fiscal year. At June 30, 2003, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8% investment rate of return and projected salary increases of 4.75% per year. The actuarial value of the System'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, 2003, was 19 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)
1/1/03	\$ 94,182	\$ 157,330	\$ 63,148	59.9%	\$ 23,557	268.1%
1/1/02	111,128	153,452	42,324	72.4%	24,276	174.3%
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%

*Noncontributory Retirement Allowance* - The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2003 totaled approximately \$293,000.

**NOTE 12 - 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 \$2,725,524 in fiscal year 2003. 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.

#### Symmes Hospital Site

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. As of June 30, 2003, the Town has temporarily financed the purchase and operations of the property through the issuance of \$8,000,000 and \$2,500,000, respectively, in Bond Anticipation Notes. Any 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. During fiscal year 2003, the operations of the site generated approximately \$528,000 in revenues and incurred approximately \$1,650,000 in expenditures.

The Arlington Redevelopment Board has received statements of qualifications from prospective developers of the site and plans to issue a request for proposals to certain developers in the fall of 2003. The Redevelopment Board plans to choose one developer to purchase and develop the site in accordance with a land disposition agreement and in accordance with the urban renewal plan adopted and amended by Arlington Town Meeting in fiscal years 2002 and 2003, respectively.

#### Reeds Brook Site

In 1995, Arlington Town Meeting voted to purchase a 20 acre parcel of land known as Reed's Brook. In 1997, Town Meeting voted to convert the site to a park and to purchase 2 acres of abutting land. The total project is anticipated to cost approximately \$7,400,000, of which, \$1,200,000 has been funded through Community Development Block Grant Funds and approximately \$730,000 and \$680,000, have been funded by the Federal Emergency Management Agency and the Massachusetts Highway Department, respectively, to aid in the mitigation of flooding at and near the site.

The first phase of the construction project, which consisted primarily of engineering, design and drainage costs, has been completed at a total cost of approximately \$4.6 million. The second phase of the project, which will include the construction of the park, is scheduled to begin in September, 2003 and to be completed in the summer of 2004.

### **NOTE 13 - CONTINGENCIES**

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2003, 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 it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. 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, 2003, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2003.

**NOTE 14 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2003, the following GASB pronouncements were implemented:

- Statement #34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- 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 pronouncements identified above are all related to the new financial reporting requirements as defined in Statement #34. Fiscal year 2003 is the required implementation date. The most significant changes required by the new financial reporting standards are as follows:

- Management’s discussion and analysis.
- Basic financial statements, which include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting.
  - Fund financial statements, consisting of a series of statements that focus on major governmental and enterprise funds.
  - Schedules to reconcile the fund financial statements to the government-wide financial statements.
  - Notes to the basic financial statements.

As a result of implementing these pronouncements, the following restatements have been made to beginning fund balances and net assets:

***Fund Financial Statements***

The following beginning fund balances have been restated to reflect the change in focus of reporting from generic fund types to major funds:

	6/30/02 Previously Reported Balances	Reclass to Major and Nonmajor Governmental Funds	Reclass to Private Purpose Trust Funds	6/30/02 Restated Balances
Special Revenue.....	\$ 4,353,711	\$ (4,353,711)	\$ -	\$ -
Capital Projects.....	(1,146,636)	1,146,636	-	-
Expendable Trusts.....	15,382,205	(13,607,224)	(1,774,981)	-
Nonexpendable Trusts.....	4,125,342	(2,128,689)	(1,996,653)	-
Capital Borrowing Funds.....	-	(1,862,579)	-	(1,862,579)
Nonmajor Governmental Funds...	-	20,805,567	-	20,805,567
Private Purpose Trust Funds.....	-	-	3,771,634	3,771,634
Total.....	<u>\$ 22,714,622</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,714,622</u>

The following beginning net assets of the Town's enterprise funds have been restated to record capital assets based on a comprehensive capital asset inventory completed as part of the conversion to the GASB Statement #34 reporting model.

**Business-type Activities - Enterprise Funds**

	6/30/02 Previously Reported Balances	To record unbilled user fees	To record revenue on full accrual basis	To record capital assets	6/30/02 Restated Balances
Water and Sewer.....	\$ 2,698,390	\$ 2,038,000	\$ 1,105,963	\$ 5,991,125	\$ 11,833,478
Youth Services.....	(11,769)	-	-	-	(11,769)
Council on Aging.....	96,685	-	-	30,349	127,034
Veterans' Rink.....	99,431	-	-	91,871	191,302
Recreation.....	(1,789)	-	-	26,825	25,036
Total.....	<u>\$ 2,880,948</u>	<u>\$ 2,038,000</u>	<u>\$ 1,105,963</u>	<u>\$ 6,140,170</u>	<u>\$ 12,165,081</u>

**Future Implementation of GASB Pronouncements**

The GASB has issued Statement #39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement #14, which is required to be implemented during fiscal year 2004. Management has yet to determine if this pronouncement will significantly impact the basic financial statements.

The GASB has issued Statement #40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3, which is required to be implemented during fiscal year 2005. The implementation of this statement will require changes to the note disclosures only. It will not effect the financial statements.

The GASB issued Statement No. 41, Budgetary Comparison Schedule—Perspective Differences which is required to be implemented during fiscal year 2005. There will be no change in the financial statements.

***Required Supplementary Information***



**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2003

	Budgeted Amounts			
	Amounts	Current Year		Final
	Carried forward From Prior Year	Initial Budget	Original Budget	Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 60,979,288	\$ 60,979,288	\$ 60,602,341
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	3,967,000	3,967,000	3,967,000
Hotel/motel tax.....	-	-	-	-
Intergovernmental.....	-	17,691,026	17,691,026	17,691,026
Departmental and other.....	-	2,439,182	2,439,182	2,439,182
Investment income.....	-	664,619	664,619	664,619
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>85,741,115</b>	<b>85,741,115</b>	<b>85,364,168</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	773,982	4,406,910	5,180,892	5,047,104
Public safety.....	17,832	10,934,612	10,952,444	10,840,944
Education.....	3,117,209	34,106,983	37,224,192	37,015,939
Public works.....	201,000	7,197,623	7,398,623	7,353,893
Property and natural resources.....	34,290	1,519,891	1,554,181	1,601,971
Community development.....	-	547,788	547,788	566,788
Human services.....	21,417	617,993	639,410	630,785
Library.....	4,907	1,616,142	1,621,049	1,638,049
Pension benefits.....	-	5,093,726	5,093,726	5,093,726
Employee benefits.....	2,468	9,966,390	9,968,858	10,233,858
State and county charges.....	-	2,796,522	2,796,522	2,796,522
Debt service:				
Principal.....	-	4,290,000	4,290,000	4,290,000
Interest.....	-	2,262,440	2,262,440	2,262,440
<b>TOTAL EXPENDITURES.....</b>	<b>4,173,105</b>	<b>85,357,020</b>	<b>89,530,125</b>	<b>89,372,019</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(4,173,105)</b>	<b>384,095</b>	<b>(3,789,010)</b>	<b>(4,007,851)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	-	1,725,385	1,725,385	1,813,630
Transfers out.....	-	(5,409,765)	(5,409,765)	(5,230,035)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(3,684,380)</b>	<b>(3,684,380)</b>	<b>(3,416,405)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(4,173,105)</b>	<b>(3,300,285)</b>	<b>(7,473,390)</b>	<b>(7,424,256)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>12,947,819</b>	<b>12,947,819</b>	<b>12,947,819</b>	<b>12,947,819</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 8,774,714</b>	<b>\$ 9,647,534</b>	<b>\$ 5,474,429</b>	<b>\$ 5,523,563</b>

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 60,509,639	\$ -	\$ (92,702)
129,406	-	129,406
4,064,628	-	97,628
40,888	-	40,888
16,986,000	-	(705,026)
3,336,948	-	897,766
412,484	-	(252,135)
<u>85,479,993</u>	<u>-</u>	<u>115,825</u>
3,560,870	1,185,472	300,762
10,728,194	45,712	67,038
33,241,514	3,525,825	248,600
7,082,346	468,980	(197,433)
1,442,027	76,677	83,267
563,852	2,287	649
557,499	18,281	55,005
1,612,267	24,718	1,064
5,061,983	-	31,743
9,964,199	18,059	251,600
2,860,897	-	(64,375)
4,290,000	-	-
2,262,440	-	-
<u>83,228,088</u>	<u>5,366,011</u>	<u>777,920</u>
<u>2,251,905</u>	<u>(5,366,011)</u>	<u>893,745</u>
1,813,630	-	-
(5,230,035)	-	-
<u>(3,416,405)</u>	<u>-</u>	<u>-</u>
(1,164,500)	(5,366,011)	893,745
12,947,819	-	-
<u>\$ 11,783,319</u>	<u>\$ (5,366,011)</u>	<u>\$ 893,745</u>

**NOTE A – BUDGETARY BASIS OF ACCOUNTING****A. Budgetary Information**

Municipal Law requires the adoption of 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. Prior appropriations of \$4,028,184 were included in the fiscal year 2003 original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds 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 fiscal year 2003 original budget includes approximately \$90,767,000 in current year authorized appropriations and other amounts to be raised and approximately \$1,327,000 in encumbrances and appropriations were carried over from previous fiscal years. During fiscal year 2003, the Committee approved rescissions to the original budget totaling approximately \$338,000.

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) 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, 2003, is presented as follows:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ (1,164,500)
<u>Perspective difference:</u>	
Activity of health insurance, municipal building insurance and retirees health care trust recorded in the general fund for GAAP .....	432,516
<u>Basis of accounting differences:</u>	
Recognition of revenue based on available criteria.....	(409,501)
Recognition of expenditures on modified accrual basis.....	(431,409)
Recognition of revenue for on-behalf payment.....	(6,693,092)
Recognition of revenue for on-behalf payment.....	<u>6,693,092</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	<u>\$ (1,572,894)</u>

C. Appropriation Deficits

During fiscal year 2003, expenditures exceeded budgeted appropriations for public works and state and county charges. These deficits will be funded through available funds in fiscal year 2004.