

***TOWN OF ARLINGTON, MASSACHUSETTS***

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

***FISCAL YEAR ENDED JUNE 30, 2005***

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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| Independent Auditors' Report.....  | 1           |
| Management's Discussion and Analysis .....   | 2           |
| Basic Financial Statements .....   | 11          |
| Statement of Net Assets .....  | 13          |
| Statement of Activities .....  | 14          |
| Governmental Funds – Balance Sheet.....  | 16          |
| Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Assets...                                       | 17          |
| Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balances.....   | 18          |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities ..... | 19          |
| Proprietary Funds – Statement of Net Assets .....  | 20          |
| Proprietary Funds – Statement of Revenues, Expenses and Changes in Fund Net Assets.....  | 22          |
| Proprietary Funds – Statement of Cash Flows .....  | 24          |
| Fiduciary Funds – Statement of Fiduciary Net Assets.....   | 26          |
| Fiduciary Funds – Statement of Changes in Fiduciary Net Assets .....   | 27          |
| Notes to Basic Financial Statements .....  | 28          |
| Required Supplementary Information.....  | 53          |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund – Budget and Actual .....  | 54          |
| Notes to Required Supplementary Information.....   | 56          |

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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, 2005 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2004), 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, 2005 (except for the Arlington Contributory Retirement System which is as of December 31, 2004), 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 reclassified several fund balances between non-major governmental funds and private purpose trust funds which has changed the beginning balances of governmental net assets, non-major governmental funds and private purpose trust funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005, 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 the 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.

August 19, 2005

# ***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, 2005. 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, claims and judgments, interest 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 schedule has been provided for the general fund to demonstrate compliance with this budget. The budgetary comparison schedule is reported following the notes to the basic financial statements as required supplementary information.

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

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

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

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For governmental activities, assets exceeded liabilities by \$86.4 million at the close of FY 2005.

The largest portion of the Town's net assets, \$59.4 million, (69%), reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$10.3, (12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$16.7, (19%) may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental Activities**

|  | Balance at<br>June 30,<br>2005 | Balance at<br>June 30,<br>2004 |
|--|--------------------------------|--------------------------------|
| <b>Assets:</b>                               |                                |                                |
| Current assets.....                          | \$ 57,526,449                  | \$ 50,670,190                  |
| Noncurrent assets (excluding capital).....   | 22,162,210                     | 20,056,975                     |
| Capital assets.....                          | 96,380,267                     | 87,055,898                     |
| <b>Total assets.....</b>                     | <b>176,068,926</b>             | <b>157,783,063</b>             |
| <b>Liabilities:</b>                          |                                |                                |
| Current liabilities (excluding debt).....    | 15,095,260                     | 11,801,680                     |
| Noncurrent liabilities (excluding debt)..... | 2,854,673                      | 2,699,400                      |
| Current debt.....                            | 27,215,000                     | 15,612,000                     |
| Noncurrent debt.....                         | 44,460,000                     | 45,125,000                     |
| <b>Total liabilities.....</b>                | <b>89,624,933</b>              | <b>75,238,080</b>              |
| <b>Net Assets:</b>                           |                                |                                |
| Capital assets net of related debt.....      | 59,467,493                     | 54,896,972                     |
| Restricted.....                              | 10,260,588                     | 9,155,449                      |
| Unrestricted.....                            | 16,715,912                     | 18,492,562                     |
| <b>Total net assets.....</b>                 | <b>\$ 86,443,993</b>           | <b>\$ 82,544,983</b>           |

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

The governmental activities net assets increased by \$3.9 million during the current fiscal year. This is an indication that the Town's financial position has improved for Governmental Activities during the course of the year. This year's increase was higher than fiscal year 2004, primarily due to the amount of capital grant revenue recorded in the current year in relation to the Town's school building projects.



**Governmental Activities**

|  | June 30,<br>2005    | June 30,<br>2004   |
|--|---------------------|--------------------|
| <b>Program revenues:</b>                     |                     |                    |
| Charges for services.....                    | \$ 8,382,130        | \$ 8,023,657       |
| Operating grants and contributions.....      | 25,196,840          | 22,722,044         |
| Capital grants and contributions.....        | 3,387,413           | 383,851            |
| <b>General Revenues:</b>                     |                     |                    |
| Real estate and personal property taxes..... | 65,177,817          | 63,268,543         |
| Tax liens.....                               | 267,852             | 179,999            |
| Motor vehicle and other excise taxes.....    | 4,196,715           | 4,028,117          |
| Hotel/motel tax.....                         | 113,104             | 85,606             |
| Penalties and interest on taxes.....         | 138,005             | 130,059            |
| Nonrestricted grants and contributions.....  | 8,809,989           | 8,509,376          |
| Unrestricted investment income.....          | 637,008             | 1,671,685          |
| Miscellaneous revenues.....                  | 6,336               | 20,145             |
| <b>Total revenues.....</b>                   | <b>116,313,209</b>  | <b>109,023,082</b> |
| <b>Expenses:</b>                             |                     |                    |
| General government.....                      | 5,244,262           | 4,265,511          |
| Public safety.....                           | 13,008,855          | 12,729,331         |
| Education.....                               | 41,611,948          | 39,497,155         |
| Public works.....                            | 7,326,337           | 8,398,299          |
| Property and natural resources.....          | 2,369,962           | 1,913,928          |
| Community and economic development.....      | 4,774,837           | 4,934,576          |
| Human services.....                          | 804,345             | 633,313            |
| Library.....                                 | 1,823,137           | 1,715,579          |
| Culture and recreation.....                  | 274,927             | 368,366            |
| Pension benefits.....                        | 14,030,461          | 13,340,133         |
| Employee benefits.....                       | 10,501,906          | 10,719,190         |
| Claims and judgements.....                   | 92,192              | -                  |
| Interest.....                                | 2,424,058           | 2,233,295          |
| State and county charges.....                | 2,651,177           | 2,756,005          |
| <b>Total expenses.....</b>                   | <b>106,938,404</b>  | <b>103,504,681</b> |
| <b>Transfers.....</b>                        | <b>(5,475,795)</b>  | <b>(5,270,597)</b> |
| <b>Change in net assets.....</b>             | <b>\$ 3,899,010</b> | <b>\$ 247,804</b>  |

**Business-Type Activities**

|  | Balance at<br>June 30,<br>2005 | Balance at<br>June 30,<br>2004 |
|--|--------------------------------|--------------------------------|
| <b>Assets:</b>                               |                                |                                |
| Current assets.....                          | \$ 6,298,023                   | \$ 3,969,043                   |
| Capital assets.....                          | 7,815,141                      | 8,004,311                      |
| <b>Total assets.....</b>                     | <b>14,113,164</b>              | <b>11,973,354</b>              |
| <b>Liabilities:</b>                          |                                |                                |
| Current liabilities (excluding debt).....    | 245,156                        | 149,071                        |
| Noncurrent liabilities (excluding debt)..... | 121,000                        | 84,000                         |
| Current debt.....                            | 111,877                        | -                              |
| Noncurrent debt.....                         | 797,508                        | -                              |
| <b>Total liabilities.....</b>                | <b>1,275,541</b>               | <b>233,071</b>                 |
| <b>Net Assets:</b>                           |                                |                                |
| Capital assets net of related debt.....      | 7,602,802                      | 8,004,311                      |
| Unrestricted.....                            | 5,234,821                      | 3,735,972                      |
| <b>Total net assets.....</b>                 | <b>\$ 12,837,623</b>           | <b>\$ 11,740,283</b>           |

There was a net increase of \$1.1 million in net assets reported in connection with the Town's business-type activities. Additionally, the water and sewer enterprise fund was subsidized by the general fund in fiscal year 2005 by approximately \$5.1 million to offset a portion of the costs associated with the repayment of debt to the Massachusetts Water Resources Authority. The majority of the increase (\$1.1 million) is a result of the operating activities of the water and sewer enterprise fund. Water and sewer revenues from charges for services increased by approximately \$1.4 million due to rate increases.

**Business-Type Activities**

|   | June 30,<br>2005    | June 30,<br>2004    |
|---|---------------------|---------------------|
| <b>Program revenues:</b>                |                     |                     |
| Charges for services.....               | \$ 8,769,042        | \$ 7,117,599        |
| Operating grants and contributions..... | 94,983              | 110,388             |
| Capital grants and contributions.....   | 171,315             | -                   |
| <b>General Revenues:</b>                |                     |                     |
| Unrestricted investment income.....     | 15,509              | -                   |
| <b>Total revenues.....</b>              | <b>9,050,849</b>    | <b>7,227,987</b>    |
| <b>Expenses:</b>                        |                     |                     |
| Water/Sewer.....                        | 12,199,666          | 11,733,730          |
| Youth Services.....                     | 248,548             | 284,911             |
| Council on Aging.....                   | 92,942              | 83,752              |
| Veteran's Rink.....                     | 393,931             | 360,775             |
| Recreation.....                         | 494,217             | 410,218             |
| <b>Total expenses.....</b>              | <b>13,429,304</b>   | <b>12,873,386</b>   |
| <b>Transfers.....</b>                   | <b>5,475,795</b>    | <b>5,270,597</b>    |
| <b>Change in net assets.....</b>        | <b>\$ 1,097,340</b> | <b>\$ (374,802)</b> |

## ***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 \$16.1 million, a decrease of \$8.6 million from the prior year. Of this decrease, \$6.5 million was the result of the activity in the Town's capital borrowing fund, which is reported as a major fund. During fiscal year 2005, the Town recognized \$3.7 million in bond proceeds in this major fund to finance various capital projects. Current expenditures in this fund totaled \$10.2 million. The largest of the current projects are related to school construction and the Reeds Brook park project. These two major Town projects are more fully described under the Capital Asset and Debt Administration section of this report.

Of the remainder of the change in fund balance, (\$.6 million) is in the results of operations of the general fund, and (\$1.6 million) is related to activities in other non-major governmental funds, which recognized \$250,000 in bond proceeds to finance various Town capital budget items. The general fund budgeted to use \$2 million of reserves (\$1.5 million in available funds "free cash" and \$.5 million in prior reserves released by the board of assessors "overlay surplus") to balance the fiscal year 2005 budget. The actual result of operations collected approximately \$900 thousand more than budgeted and departmental budgets turned back \$929 thousand. Consequently, on a budgetary (cash) basis, the general fund did not experience a material increase or decrease.

On June 11, 2005 the voters approved a \$6 million override of Proposition 2 ½. The purpose of the override was to fund the restoration of services that were lost due to state aid cuts in prior years. Two million dollars was placed in a Fiscal Stability Stabilization fund to be used over a 5 year period to fund any budget shortfalls. The override was premised on a financial plan which consisted of the town not seeking another override for 5 years, spending limits for operating budgets at 4% annual increase, pensions at a 4% annual increase and health insurance at a 7% annual increase, and maintaining 5% of revenues in reserve 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 \$765 thousand which represents less than 1% 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 \$3.5 million, which represents 3.7% of general fund expenditures. Please refer to Note 9 for additional information on the Town's tip fee stabilization fund.

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

The primary reasons for the net increase of approximately \$2.2 million between the original budget and the final amended budget was a voted transfer to the public works budget from the tip fee stabilization fund of \$2.4 million and a decrease to the pension appropriation of \$171 thousand.

Intergovernmental revenues exceeded budgeted estimates by \$792 thousand. This was due to \$306 thousand in municipal relief funds received from the commonwealth which were unbudgeted and increases in school construction revenues which exceeded budgeted amounts by \$495 thousand. Actual expenditures were lower

than the final budget and carryforwards by \$827 thousand for education. Public works expenditures exceeded appropriations by \$421 thousand, due to expenditures for snow and ice removal.

### ***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, 2005, was \$49,430,000, 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 \$5.1 million in fiscal year 2005 from the MWRA assessment to the property taxes. During fiscal year 2005, the Town issued an additional \$909 thousand in MWRA water and sewer bonds.

The Town of Arlington passed a debt exclusion vote to raise the funds necessary to purchase the Symmes Site, home of the former Symmes Hospital, in March 2001. The Town Meeting then formed the broadly representative Symmes Advisory Committee (SAC) to assist with redevelopment plans and to ensure that the plans were consistent with community goals and desires. On January 7, 2002, the Arlington Redevelopment Board (ARB) adopted the Symmes Arlington Conservation and Improvement Project (the Plan) as an urban renewal project in accordance with the procedures and requirements of Massachusetts General Law, chapter 121B. The plan was subsequently approved by the Town Meeting and by the Commonwealth's Department of Housing and Community Development (DHCD). The Town Meeting voted at a Special Town Meeting on January 12, 2002 to appropriate up to \$14,000,000 to purchase and maintain the old Symmes Hospital property until Town Meeting could vote how to utilize the property in the best interest of the Town. The ARB acquired the Site in April 2002. During fiscal year 2004, the Arlington Redevelopment Board issued requests for proposals, and in February, 2004 chose E.A. Fish Associates to purchase and redevelop the property. At the end of fiscal year 2005, the developer was in the process of getting the special permits needed to redevelop the site. Please refer to note 12 for further information on this project.

The Town of Arlington is in the process of renovating/replacing its middle school as well as all of its 7 elementary schools. To date five schools have been completed, one school is in the construction phase and two are in the design stage. Funding for the schools is from debt exclusion and is predicated on a 63% reimbursement from the State's School Building Assistance program which is administered by the Massachusetts School Building Authority (MSBA). Four of the schools have begun receiving the state reimbursement and one (Dallin School) is on the state reimbursement list pending future funding.

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 expected that the playing fields will be ready for play in the Spring of 2006.

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, 2005

|  | <i>Primary Government</i>  |                             |                      |
|--|----------------------------|-----------------------------|----------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                |
| <b>ASSETS</b>  |                            |                             |                      |
| <b>CURRENT:</b>                                      |                            |                             |                      |
| Cash and short-term investments.....                 | \$ 35,488,411              | \$ 2,521,728                | \$ 38,010,139        |
| Investments.....                                     | 11,499,926                 | -                           | 11,499,926           |
| Receivables, net of allowance for uncollectibles:    |                            |                             |                      |
| Real estate and personal property taxes.....         | 6,067                      | -                           | 6,067                |
| Real estate tax deferrals.....                       | 285,068                    | -                           | 285,068              |
| Tax liens.....                                       | 339,307                    | -                           | 339,307              |
| Motor vehicle excise taxes.....                      | 243,164                    | -                           | 243,164              |
| User fees.....                                       | -                          | 3,776,295                   | 3,776,295            |
| Departmental and other.....                          | 80,804                     | -                           | 80,804               |
| Intergovernmental.....                               | 5,971,308                  | -                           | 5,971,308            |
| Loans.....   | 1,058,741                  | -                           | 1,058,741            |
| Tax foreclosures.....                                | 396,784                    | -                           | 396,784              |
| Investment in joint venture.....                     | 1,715,172                  | -                           | 1,715,172            |
| Deferred loss on refunding.....                      | 55,764                     | -                           | 55,764               |
| Unamortized bond issue cost.....                     | 10,562                     | -                           | 10,562               |
| <b>NONCURRENT:</b>                                   |                            |                             |                      |
| Receivables, net of allowance for uncollectibles:    |                            |                             |                      |
| Intergovernmental.....                               | 22,162,210                 | -                           | 22,162,210           |
| Deferred loss on refunding.....                      | 315,593                    | -                           | 315,593              |
| Unamortized bond issue cost.....                     | 59,778                     | -                           | 59,778               |
| Capital assets, net of accumulated depreciation:     |                            |                             |                      |
| Nondepreciable.....                                  | 26,702,585                 | 2,954                       | 26,705,539           |
| Depreciable.....                                     | 69,677,682                 | 7,812,187                   | 77,489,869           |
| <b>TOTAL ASSETS.....</b>                             | <b>176,068,926</b>         | <b>14,113,164</b>           | <b>190,182,090</b>   |
| <b>LIABILITIES</b>                                   |                            |                             |                      |
| <b>CURRENT:</b>                                      |                            |                             |                      |
| Warrants payable.....                                | 3,556,035                  | 152,060                     | 3,708,095            |
| Accrued payroll.....                                 | 4,447,296                  | 16,096                      | 4,463,392            |
| Health claims payable.....                           | 1,452,000                  | -                           | 1,452,000            |
| Accrued interest.....                                | 1,099,174                  | -                           | 1,099,174            |
| Payroll withholdings.....                            | 126,338                    | -                           | 126,338              |
| Abandoned property.....                              | 22,675                     | -                           | 22,675               |
| Other liabilities.....                               | 775,793                    | -                           | 775,793              |
| Customer deposits payable.....                       | 2,925                      | -                           | 2,925                |
| Compensated absences.....                            | 3,525,000                  | 77,000                      | 3,602,000            |
| Workers' compensation.....                           | 70,500                     | -                           | 70,500               |
| Unamortized premium on bonds payable.....            | 17,524                     | -                           | 17,524               |
| Bonds and notes payable.....                         | 27,215,000                 | 111,877                     | 27,326,877           |
| <b>NONCURRENT:</b>                                   |                            |                             |                      |
| Compensated absences.....                            | 1,879,000                  | 121,000                     | 2,000,000            |
| Workers' compensation.....                           | 876,500                    | -                           | 876,500              |
| Unamortized premium on bonds payable.....            | 99,173                     | -                           | 99,173               |
| Bonds and notes payable.....                         | 44,460,000                 | 797,508                     | 45,257,508           |
| <b>TOTAL LIABILITIES.....</b>                        | <b>89,624,933</b>          | <b>1,275,541</b>            | <b>90,900,474</b>    |
| <b>NET ASSETS</b>                                    |                            |                             |                      |
| Invested in capital assets, net of related debt..... | 59,467,493                 | 7,602,802                   | 67,070,295           |
| Restricted for:                                      |                            |                             |                      |
| Loans.....   | 1,058,741                  | -                           | 1,058,741            |
| Permanent funds:                                     |                            |                             |                      |
| Expendable.....                                      | 4,505,139                  | -                           | 4,505,139            |
| Nonexpendable.....                                   | 2,917,043                  | -                           | 2,917,043            |
| Other specific purposes.....                         | 1,779,665                  | -                           | 1,779,665            |
| Unrestricted.....                                    | 16,715,912                 | 5,234,821                   | 21,950,733           |
| <b>TOTAL NET ASSETS.....</b>                         | <b>\$ 86,443,993</b>       | <b>\$ 12,837,623</b>        | <b>\$ 99,281,616</b> |

See notes to basic financial statements.



**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2005

| <u>Functions/Programs</u>                  | <u>Expenses</u>       | <u>Program Revenues</u>         |   |   | <u>Net (Expense)<br/>Revenue</u> |
|--|-----------------------|---------------------------------|---|---|----------------------------------|
|  |                       | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> |                                  |
| <b>Primary Government:</b>                 |                       |                                 |   |   |                                  |
| <i>Governmental Activities:</i>            |                       |                                 |   |   |                                  |
| General government.....                    | \$ 5,244,262          | \$ 1,470,818                    | \$ 135,727  | \$ -  | \$ (3,637,717)                   |
| Public safety.....                         | 13,008,855            | 2,494,339                       | 462,323   | -   | (10,052,193)                     |
| Education.....                             | 41,611,948            | 1,356,694                       | 10,479,035  | 3,387,413                                       | (26,388,806)                     |
| Public works.....                          | 7,326,337             | 1,331,331                       | 1,412,796   | -   | (4,582,210)                      |
| Property and natural resources.....        | 2,369,962             | 299,263                         | 101,761   | -   | (1,968,938)                      |
| Community development.....                 | 4,774,837             | 1,112,726                       | 2,901,713   | -   | (760,398)                        |
| Human services.....                        | 804,345               | 123,655                         | 257,478   | -   | (423,212)                        |
| Library.....                               | 1,823,137             | 12,127                          | 151,627   | -   | (1,659,383)                      |
| Culture and recreation.....                | 274,927               | 181,177                         | 82,858  | -   | (10,892)                         |
| Pension benefits.....                      | 14,030,461            | -                               | 8,204,671   | -   | (5,825,790)                      |
| Employee benefits.....                     | 10,545,432            | -                               | -   | -   | (10,545,432)                     |
| Claims and judgments.....                  | 92,192                | -                               | -   | -   | (92,192)                         |
| Interest.....                              | 2,424,058             | -                               | 1,050,377   | -   | (1,373,681)                      |
| State and county charges.....              | 2,651,177             | -                               | -   | -   | (2,651,177)                      |
| <b>Total Governmental Activities.....</b>  | <b>106,981,930</b>    | <b>8,382,130</b>                | <b>25,240,366</b>                                 | <b>3,387,413</b>                                | <b>(69,972,021)</b>              |
| <i>Business-Type Activities:</i>           |                       |                                 |   |   |                                  |
| Water/Sewer.....                           | 12,199,666            | 7,882,765                       | -   | 171,315   | (4,145,586)                      |
| Youth Services.....                        | 248,548               | 24,010                          | 27,000  | -   | (197,538)                        |
| Council on Aging.....                      | 92,942                | 13,519                          | 67,983  | -   | (11,440)                         |
| Veterans' Rink.....                        | 393,931               | 396,507                         | -   | -   | 2,576                            |
| Recreation.....                            | 494,217               | 452,241                         | -   | -   | (41,976)                         |
| <b>Total Business-Type Activities.....</b> | <b>13,429,304</b>     | <b>8,769,042</b>                | <b>94,983</b>                                     | <b>171,315</b>                                  | <b>(4,393,964)</b>               |
| <b>Total Primary Government.....</b>       | <b>\$ 120,411,234</b> | <b>\$ 17,151,172</b>            | <b>\$ 25,335,349</b>                              | <b>\$ 3,558,728</b>                             | <b>\$ (74,365,985)</b>           |

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2005

|   | Primary Government          |                             |                             |
|---|-----------------------------|-----------------------------|-----------------------------|
|   | Governmental<br>Activities  | Business-Type<br>Activities | Total                       |
| <b>Changes in net assets:</b>   |                             |                             |                             |
| Net (expense) revenue from previous page.....                               | \$ <b>(69,972,021)</b>      | \$ <b>(4,393,964)</b>       | \$ <b>(74,365,985)</b>      |
| <i>General revenues:</i>  |                             |                             |                             |
| Real estate and personal property taxes,<br>net of tax refunds payable..... | 65,177,817                  | -                           | 65,177,817                  |
| Tax liens.....  | 267,852                     | -                           | 267,852                     |
| Motor vehicle excise taxes.....   | 4,196,715                   | -                           | 4,196,715                   |
| Hotel/motel tax.....  | 113,104                     | -                           | 113,104                     |
| Penalties and interest on taxes.....  | 138,005                     | -                           | 138,005                     |
| Grants and contributions not restricted to<br>specific programs.....        | 8,809,989                   | -                           | 8,809,989                   |
| Unrestricted investment income.....   | 637,008                     | 15,509                      | 652,517                     |
| Miscellaneous.....  | 6,336                       | -                           | 6,336                       |
| <i>Transfers, net</i> .....   | <u>(5,475,795)</u>          | <u>5,475,795</u>            | <u>-</u>                    |
| Total general revenues and transfers.....                                   | <u>73,871,031</u>           | <u>5,491,304</u>            | <u>79,362,335</u>           |
| Change in net assets.....   | 3,899,010                   | 1,097,340                   | 4,996,350                   |
| <i>Net Assets:</i>  |                             |                             |                             |
| Beginning of year (as restated).....  | <u>82,544,983</u>           | <u>11,740,283</u>           | <u>94,285,266</u>           |
| End of year.....  | \$ <u><u>86,443,993</u></u> | \$ <u><u>12,837,623</u></u> | \$ <u><u>99,281,616</u></u> |

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2005

| <b>ASSETS</b>                                      | General              | Capital<br>Borrowing<br>Funds | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|----------------------|-------------------------------|-----------------------------------|--------------------------------|
| Cash and short-term investments.....               | \$ 16,190,695        | \$ 8,731,792                  | \$ 10,565,924                     | \$ 35,488,411                  |
| Investments.....                                   | 2,969,282            | -                             | 8,530,644                         | 11,499,926                     |
| Receivables, net of uncollectibles:                |                      |                               |                                   |                                |
| Real estate and personal property taxes.....       | 6,067                | -                             | -                                 | 6,067                          |
| Real estate tax deferrals.....                     | 285,068              | -                             | -                                 | 285,068                        |
| Tax liens.....                                     | 339,307              | -                             | -                                 | 339,307                        |
| Motor vehicle excise taxes.....                    | 243,164              | -                             | -                                 | 243,164                        |
| Departmental and other.....                        | 80,804               | -                             | -                                 | 80,804                         |
| Intergovernmental.....                             | 24,000,000           | -                             | 4,133,518                         | 28,133,518                     |
| Loans.....   | -                    | -                             | 1,058,741                         | 1,058,741                      |
| Tax foreclosures.....                              | 396,784              | -                             | -                                 | 396,784                        |
| Investment in joint venture.....                   | -                    | -                             | 1,715,172                         | 1,715,172                      |
| <b>TOTAL ASSETS.....</b>                           | <b>\$ 44,511,171</b> | <b>\$ 8,731,792</b>           | <b>\$ 26,003,999</b>              | <b>\$ 79,246,962</b>           |
| <b>LIABILITIES AND FUND BALANCES</b>               |                      |                               |                                   |                                |
| <b>LIABILITIES:</b>                                |                      |                               |                                   |                                |
| Warrants payable.....                              | \$ 1,411,636         | \$ 1,808,028                  | \$ 336,371                        | \$ 3,556,035                   |
| Accrued payroll.....                               | 4,394,760            | -                             | 52,536                            | 4,447,296                      |
| Health claims payable.....                         | 1,452,000            | -                             | -                                 | 1,452,000                      |
| Accrued interest on short-term debt.....           | 410,927              | -                             | -                                 | 410,927                        |
| Liabilities due depositors.....                    | 2,925                | -                             | -                                 | 2,925                          |
| Payroll withholdings.....                          | 126,338              | -                             | -                                 | 126,338                        |
| Abandoned property.....                            | 22,675               | -                             | -                                 | 22,675                         |
| Other liabilities.....                             | 775,793              | -                             | -                                 | 775,793                        |
| Deferred revenues.....                             | 25,351,194           | -                             | 4,678,370                         | 30,029,564                     |
| Notes payable.....                                 | -                    | 18,745,000                    | 3,500,000                         | 22,245,000                     |
| <b>TOTAL LIABILITIES.....</b>                      | <b>33,948,248</b>    | <b>20,553,028</b>             | <b>8,567,277</b>                  | <b>63,068,553</b>              |
| <b>FUND BALANCES:</b>                              |                      |                               |                                   |                                |
| Reserved for:                                      |                      |                               |                                   |                                |
| Encumbrances and continuing appropriations.....    | 1,819,737            | -                             | -                                 | 1,819,737                      |
| Loans.....   | -                    | -                             | 1,058,741                         | 1,058,741                      |
| Perpetual permanent funds.....                     | -                    | -                             | 2,917,043                         | 2,917,043                      |
| Unreserved:  |                      |                               |                                   |                                |
| Designated for municipal insurance.....            | 3,765,701            | -                             | -                                 | 3,765,701                      |
| Designated for subsequent year's expenditures..... | 2,014,155            | -                             | -                                 | 2,014,155                      |
| Undesignated, reported in:                         |                      |                               |                                   |                                |
| General fund.....                                  | 2,963,330            | -                             | -                                 | 2,963,330                      |
| Special revenue funds.....                         | -                    | -                             | 7,031,736                         | 7,031,736                      |
| Capital projects funds.....                        | -                    | (11,821,236)                  | 1,924,063                         | (9,897,173)                    |
| Permanent funds.....                               | -                    | -                             | 4,505,139                         | 4,505,139                      |
| <b>TOTAL FUND BALANCES.....</b>                    | <b>10,562,923</b>    | <b>(11,821,236)</b>           | <b>17,436,722</b>                 | <b>16,178,409</b>              |
| <b>TOTAL LIABILITIES AND FUND BALANCES.....</b>    | <b>\$ 44,511,171</b> | <b>\$ 8,731,792</b>           | <b>\$ 26,003,999</b>              | <b>\$ 79,246,962</b>           |

See notes to basic financial statements.

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

JUNE 30, 2005

|   |              |               |
|---|--------------|---------------|
| Total governmental fund balances.....   |              | \$ 16,178,409 |
| Capital assets (net) used in governmental activities are not financial resources<br>and, therefore, are not reported in the funds.....  |              | 96,380,267    |
| Accounts receivable are not available to pay for current-period<br>expenditures and, therefore, are deferred in the funds.....  |              | 30,029,564    |
| In the statement of activities, interest is accrued on outstanding long-term debt,<br>whereas in governmental funds interest is not reported until due.....   |              | (688,247)     |
| Long-term liabilities are not due and payable in the current period and, therefore,<br>are not reported in the governmental funds   |              |               |
| Bonds and notes payable.....  | (49,430,000) |               |
| Unamortized bond issue costs.....   | 70,340       |               |
| Unamortized premium on bonds payable.....   | (116,697)    |               |
| Workers compensation.....   | (947,000)    |               |
| Compensated absences.....   | (5,404,000)  |               |
| Net effect of reporting long-term liabilities.....  |              | (55,827,357)  |
| In the statement of activities, deferred losses are reported for refundings of<br>debt, which are amortized over the shorter of the remaining life of the<br>refunding bonds or refunded bonds. In governmental funds, defeasances<br>of debt are expensed when the refunding bonds are issued..... |              | 371,357       |
| Net assets of governmental activities.....  |              | \$ 86,443,993 |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2005

|   | General              | Capital<br>Borrowing<br>Funds | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|-------------------------------|-----------------------------------|--------------------------------|
| <b>REVENUES:</b>  |                      |                               |                                   |                                |
| Real estate and personal property taxes,<br>net of tax refunds..... | \$ 65,109,365        | \$ -                          | \$ -                              | \$ 65,109,365                  |
| Tax liens.....  | 153,990              | -                             | -                                 | 153,990                        |
| Motor vehicle excise taxes.....                                     | 4,196,715            | -                             | -                                 | 4,196,715                      |
| Hotel/motel tax.....  | 113,104              | -                             | -                                 | 113,104                        |
| Intergovernmental.....  | 23,936,685           | -                             | 7,585,466                         | 31,522,151                     |
| Departmental and other.....   | 3,571,208            | -                             | 6,003,181                         | 9,574,389                      |
| Contributions.....  | -                    | -                             | 937,071                           | 937,071                        |
| Investment income.....  | 664,885              | 83,291                        | 1,038,367                         | 1,786,543                      |
| <b>TOTAL REVENUES.....</b>  | <b>97,745,952</b>    | <b>83,291</b>                 | <b>15,564,085</b>                 | <b>113,393,328</b>             |
| <b>EXPENDITURES:</b>  |                      |                               |                                   |                                |
| Current:  |                      |                               |                                   |                                |
| General government.....   | 4,113,937            | 781,897                       | 248,284                           | 5,144,118                      |
| Public safety.....  | 11,366,841           | 8,257                         | 1,263,286                         | 12,638,384                     |
| Education.....  | 33,683,500           | 6,817,903                     | 6,791,269                         | 47,292,672                     |
| Public works.....   | 8,162,889            | 1,799,720                     | 588,253                           | 10,550,862                     |
| Property and natural resources.....                                 | 1,692,431            | 7,103                         | 670,428                           | 2,369,962                      |
| Community development.....  | 573,060              | -                             | 4,201,777                         | 4,774,837                      |
| Human services.....   | 598,243              | -                             | 182,034                           | 780,277                        |
| Library.....  | 1,624,410            | -                             | 198,727                           | 1,823,137                      |
| Culture and recreation.....   | -                    | 854,275                       | 125,795                           | 980,070                        |
| Pension benefits.....   | 14,030,461           | -                             | -                                 | 14,030,461                     |
| Employee benefits.....  | 10,600,632           | -                             | -                                 | 10,600,632                     |
| Claims and judgments.....   | 92,192               | -                             | -                                 | 92,192                         |
| State and county charges.....                                       | 2,651,177            | -                             | -                                 | 2,651,177                      |
| Debt service:   |                      |                               |                                   |                                |
| Principal.....  | 4,562,000            | -                             | -                                 | 4,562,000                      |
| Interest.....   | 2,490,005            | -                             | -                                 | 2,490,005                      |
| <b>TOTAL EXPENDITURES.....</b>                                      | <b>96,241,778</b>    | <b>10,269,155</b>             | <b>14,269,853</b>                 | <b>120,780,786</b>             |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES.....</b>   | <b>1,504,174</b>     | <b>(10,185,864)</b>           | <b>1,294,232</b>                  | <b>(7,387,458)</b>             |
| <b>OTHER FINANCING SOURCES (USES):</b>                              |                      |                               |                                   |                                |
| Proceeds from bonds and notes.....                                  | -                    | 3,730,000                     | 250,000                           | 3,980,000                      |
| Proceeds from refunding bonds.....                                  | 5,730,000            | -                             | -                                 | 5,730,000                      |
| Premium from issuance of bonds.....                                 | 153,882              | -                             | -                                 | 153,882                        |
| Premium from issuance of refunding bonds.....                       | 116,697              | -                             | -                                 | 116,697                        |
| Payments to refunded bond escrow agent.....                         | (5,776,357)          | -                             | -                                 | (5,776,357)                    |
| Transfers in.....   | 3,647,820            | -                             | 716,000                           | 4,363,820                      |
| Transfers out.....  | (5,998,864)          | -                             | (3,840,751)                       | (9,839,615)                    |
| <b>TOTAL OTHER FINANCING SOURCES (USES).....</b>                    | <b>(2,126,822)</b>   | <b>3,730,000</b>              | <b>(2,874,751)</b>                | <b>(1,271,573)</b>             |
| <b>NET CHANGE IN FUND BALANCES.....</b>                             | <b>(622,648)</b>     | <b>(6,455,864)</b>            | <b>(1,580,519)</b>                | <b>(8,659,031)</b>             |
| <b>FUND BALANCES AT BEGINNING OF YEAR (as restated).....</b>        | <b>11,185,571</b>    | <b>(5,365,372)</b>            | <b>19,017,241</b>                 | <b>24,837,440</b>              |
| <b>FUND BALANCES AT END OF YEAR.....</b>                            | <b>\$ 10,562,923</b> | <b>\$ (11,821,236)</b>        | <b>\$ 17,436,722</b>              | <b>\$ 16,178,409</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, 2005

Net change in fund balances - total governmental funds..... \$ (8,659,031)

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.....                         | 11,467,726         |           |
| Depreciation expense.....                   | <u>(2,143,357)</u> |           |
| Net effect of reporting capital assets..... |                    | 9,324,369 |

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..... 2,963,407

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.....                      | (3,980,000)      |         |
| Premium from issuance of bonds, net of issue costs..... | (46,357)         |         |
| Debt service principal payments.....                    | 4,562,000        |         |
| Proceeds from refunding bonds.....                      | (5,730,000)      |         |
| Payments to refunded bond escrow agent.....             | <u>5,776,357</u> |         |
| Net effect of reporting long-term debt.....             |                  | 582,000 |

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.....                                   | (279,000)     |                  |
| Net change in accrued interest on long-term debt.....                             | (87,935)      |                  |
| Net change in worker's compensation accrual.....                                  | <u>55,200</u> |                  |
| Net effect of recording long-term liabilities and amortizing deferred losses..... |               | <u>(311,735)</u> |

Change in net assets of governmental activities..... \$ 3,899,010

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2005

|  | Business-type Activities - Enterprise Funds |                                 |                                   |
|--|---|---------------------------------|-----------------------------------|
|  | Water and<br>Sewer<br>Enterprise            | Youth<br>Services<br>Enterprise | Council<br>On Aging<br>Enterprise |
| <b>ASSETS</b>  |   |                                 |                                   |
| <b>CURRENT:</b>                                      |   |                                 |                                   |
| Cash and short-term investments.....                 | \$ 2,355,954                                | \$ 6,345                        | \$ 103,726                        |
| Receivables, net of allowance for uncollectibles:    |   |                                 |                                   |
| User fees.....                                       | 3,776,295                                   | -                               | -                                 |
| Total current assets.....                            | 6,132,249                                   | 6,345                           | 103,726                           |
|  |   |                                 | -                                 |
| <b>NONCURRENT:</b>                                   |   |                                 |                                   |
| Capital assets, net of accumulated depreciation:     |   |                                 |                                   |
| Nondepreciable.....                                  | 2,954                                       | -                               | -                                 |
| Depreciable.....                                     | 7,707,607                                   | -                               | 22,837                            |
| Total noncurrent assets.....                         | 7,710,561                                   | -                               | 22,837                            |
| <b>TOTAL ASSETS.....</b>                             | <b>13,842,810</b>                           | <b>6,345</b>                    | <b>126,563</b>                    |
| <b>LIABILITIES</b>                                   |   |                                 |                                   |
| <b>CURRENT:</b>                                      |   |                                 |                                   |
| Warrants payable.....                                | 123,270                                     | 5,097                           | 786                               |
| Accrued payroll.....                                 | 1,387                                       | 3,703                           | 676                               |
| Compensated absences.....                            | 77,000                                      | -                               | -                                 |
| Bonds and notes payable.....                         | 111,877                                     | -                               | -                                 |
| Total current liabilities.....                       | 313,534                                     | 8,800                           | 1,462                             |
| <b>NONCURRENT:</b>                                   |   |                                 |                                   |
| Compensated absences.....                            | 121,000                                     | -                               | -                                 |
| Bonds and notes payable.....                         | 797,508                                     | -                               | -                                 |
| Total noncurrent liabilities.....                    | 918,508                                     | -                               | -                                 |
| <b>TOTAL LIABILITIES.....</b>                        | <b>1,232,042</b>                            | <b>8,800</b>                    | <b>1,462</b>                      |
| <b>NET ASSETS</b>                                    |   |                                 |                                   |
| Invested in capital assets, net of related debt..... | 7,498,222                                   | -                               | 22,837                            |
| Unrestricted.....                                    | 5,112,546                                   | (2,455)                         | 102,264                           |
| <b>TOTAL NET ASSETS.....</b>                         | <b>\$ 12,610,768</b>                        | <b>\$ (2,455)</b>               | <b>\$ 125,101</b>                 |

See notes to basic financial statements.

|    | Veterans'<br>Rink<br>Enterprise | Recreation<br>Enterprise | Total                |
|----|---------------------------------|--------------------------|----------------------|
| \$ | 50,846                          | \$ 4,857                 | \$ 2,521,728         |
|    | -                               | -                        | 3,776,295            |
|    | 50,846                          | 4,857                    | 6,298,023            |
|    | -                               | -                        | 2,954                |
|    | 69,144                          | 12,599                   | 7,812,187            |
|    | 69,144                          | 12,599                   | 7,815,141            |
|    | 119,990                         | 17,456                   | 14,113,164           |
|    | 8,421                           | 14,486                   | 152,060              |
|    | 3,449                           | 6,881                    | 16,096               |
|    | -                               | -                        | 77,000               |
|    | -                               | -                        | 111,877              |
|    | 11,870                          | 21,367                   | 357,033              |
|    | -                               | -                        | 121,000              |
|    | -                               | -                        | 797,508              |
|    | -                               | -                        | 918,508              |
|    | 11,870                          | 21,367                   | 1,275,541            |
|    | 69,144                          | 12,599                   | 7,602,802            |
|    | 38,976                          | (16,510)                 | 5,234,821            |
| \$ | <u>108,120</u>                  | <u>\$ (3,911)</u>        | <u>\$ 12,837,623</u> |



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

FISCAL YEAR ENDED JUNE 30, 2005

|  | <u>Business-type Activities - Enterprise Funds</u> |  |  |
|--|--|--|--|
|  | <u>Water and<br/>Sewer<br/>Enterprise</u>          | <u>Youth<br/>Services<br/>Enterprise</u> | <u>Council<br/>On Aging<br/>Enterprise</u> |
| <b><u>OPERATING REVENUES:</u></b>                    |  |  |  |
| Charges for services .....                           | \$ 7,868,778                                       | \$ 24,010                                | \$ 13,519                                  |
| TOTAL OPERATING REVENUES .....                       | <u>7,868,778</u>                                   | <u>24,010</u>                            | <u>13,519</u>                              |
| <b><u>OPERATING EXPENSES:</u></b>                    |  |  |  |
| Cost of services and administration .....            | 11,986,630   | 248,548                                  | 87,831                                     |
| Depreciation.....                                    | <u>213,036</u>                                     | <u>-</u>                                 | <u>5,111</u>                               |
| TOTAL OPERATING EXPENSES .....                       | <u>12,199,666</u>                                  | <u>248,548</u>                           | <u>92,942</u>                              |
| OPERATING INCOME (LOSS).....                         | <u>(4,330,888)</u>                                 | <u>(224,538)</u>                         | <u>(79,423)</u>                            |
| <b><u>NONOPERATING REVENUES (EXPENSES):</u></b>      |  |  |  |
| Investment income.....                               | 29,496   | -  | -  |
| Intergovernmental.....                               | 171,315  | 17,000                                   | 67,983                                     |
| Contributions.....                                   | <u>-</u>   | <u>10,000</u>                            | <u>-</u>                                   |
| TOTAL NONOPERATING REVENUES,<br>(EXPENSES), NET..... | <u>200,811</u>                                     | <u>27,000</u>                            | <u>67,983</u>                              |
| INCOME (LOSS) BEFORE TRANSFERS.....                  | <u>(4,130,077)</u>                                 | <u>(197,538)</u>                         | <u>(11,440)</u>                            |
| <b><u>TRANSFERS:</u></b>                             |  |  |  |
| Transfers in.....                                    | <u>5,152,412</u>                                   | <u>204,508</u>                           | <u>7,822</u>                               |
| CHANGE IN NET ASSETS.....                            | 1,022,335  | 6,970                                    | (3,618)                                    |
| NET ASSETS AT BEGINNING OF YEAR.....                 | <u>11,588,433</u>                                  | <u>(9,425)</u>                           | <u>128,719</u>                             |
| NET ASSETS AT END OF YEAR.....                       | <u>\$ 12,610,768</u>                               | <u>\$ (2,455)</u>                        | <u>\$ 125,101</u>                          |

See notes to basic financial statements.

| Veterans'<br>Rink<br>Enterprise | Recreation<br>Enterprise | Total                |
|---------------------------------|--------------------------|----------------------|
| \$ 396,507                      | \$ 452,241               | \$ 8,755,055         |
| <u>396,507</u>                  | <u>452,241</u>           | <u>8,755,055</u>     |
| 385,265                         | 489,475                  | 13,197,749           |
| <u>8,666</u>                    | <u>4,742</u>             | <u>231,555</u>       |
| <u>393,931</u>                  | <u>494,217</u>           | <u>13,429,304</u>    |
| <u>2,576</u>                    | <u>(41,976)</u>          | <u>(4,674,249)</u>   |
| -                               | -                        | 29,496               |
| -                               | -                        | 256,298              |
| -                               | -                        | <u>10,000</u>        |
| -                               | -                        | <u>295,794</u>       |
| <u>2,576</u>                    | <u>(41,976)</u>          | <u>(4,378,455)</u>   |
| <u>61,126</u>                   | <u>49,927</u>            | <u>5,475,795</u>     |
| 63,702                          | 7,951                    | 1,097,340            |
| <u>44,418</u>                   | <u>(11,862)</u>          | <u>11,740,283</u>    |
| \$ <u>108,120</u>               | \$ <u>(3,911)</u>        | \$ <u>12,837,623</u> |

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2005

|  | Business-type Activities - Enterprise Funds |                                 |                                   |
|--|---|---------------------------------|-----------------------------------|
|  | Water and<br>Sewer<br>Enterprise            | Youth<br>Services<br>Enterprise | Council<br>On Aging<br>Enterprise |
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>  |   |                                 |                                   |
| Receipts from customers and users.....   | \$ 7,026,765                                | \$ 24,010                       | \$ 13,519                         |
| Payments to vendors.....   | (10,457,752)                                | (47,980)                        | (27,376)                          |
| Payments to employees.....   | (1,399,928)                                 | (199,135)                       | (62,823)                          |
| NET CASH FROM OPERATING ACTIVITIES.....  | <u>(4,830,915)</u>                          | <u>(223,105)</u>                | <u>(76,680)</u>                   |
| <b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>                                     |   |                                 |                                   |
| Transfers in.....  | 5,152,412                                   | 204,508                         | 7,822                             |
| Contributions.....   | -   | 10,000                          | -                                 |
| Intergovernmental subsidy.....   | 171,315                                     | 17,000                          | 67,983                            |
| NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....   | <u>5,323,727</u>                            | <u>231,508</u>                  | <u>75,805</u>                     |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>                            |   |                                 |                                   |
| Proceeds from the issuance of bonds and notes.....   | 909,385                                     | -                               | -                                 |
| Acquisition and construction of capital assets.....  | (32,664)                                    | -                               | (9,721)                           |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....  | <u>876,721</u>                              | <u>-</u>                        | <u>(9,721)</u>                    |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>  |   |                                 |                                   |
| Investment income.....   | 29,496                                      | -                               | -                                 |
| NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....   | 1,399,029                                   | 8,403                           | (10,596)                          |
| CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....  | 956,925                                     | (2,058)                         | 114,322                           |
| CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....  | <u>\$ 2,355,954</u>                         | <u>\$ 6,345</u>                 | <u>\$ 103,726</u>                 |
| <b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH<br/>FROM OPERATING ACTIVITIES:</u></b> |   |                                 |                                   |
| Operating income (loss).....   | \$ (4,330,888)                              | \$ (224,538)                    | \$ (79,423)                       |
| Adjustments to reconcile operating income (loss) to net<br>cash from operating activities:         |   |                                 |                                   |
| Depreciation.....  | 213,036                                     | -                               | 5,111                             |
| Changes in assets and liabilities:   |   |                                 |                                   |
| User fees.....   | (842,013)                                   | -                               | -                                 |
| Warrants payable.....  | 84,716                                      | 4,898                           | (951)                             |
| Accrued payroll.....   | (13,766)                                    | (3,465)                         | (1,417)                           |
| Accrued compensated absences.....  | 58,000                                      | -                               | -                                 |
| Total adjustments.....   | <u>(500,027)</u>                            | <u>1,433</u>                    | <u>2,743</u>                      |
| NET CASH FROM OPERATING ACTIVITIES.....  | <u>\$ (4,830,915)</u>                       | <u>\$ (223,105)</u>             | <u>\$ (76,680)</u>                |

See notes to basic financial statements.

|    | Veterans'<br>Rink<br>Enterprise | Recreation<br>Enterprise | Total                 |
|----|---------------------------------|--------------------------|-----------------------|
| \$ | 396,507                         | \$ 452,241               | \$ 7,913,042          |
|    | (174,760)                       | (156,978)                | (10,864,846)          |
|    | <u>(209,020)</u>                | <u>(328,912)</u>         | <u>(2,199,818)</u>    |
|    | 12,727                          | (33,649)                 | (5,151,622)           |
|    | 61,126                          | 49,927                   | 5,475,795             |
|    | -                               | -                        | 10,000                |
|    | <u>-</u>                        | <u>-</u>                 | <u>256,298</u>        |
|    | 61,126                          | 49,927                   | 5,742,093             |
|    | -                               | -                        | 909,385               |
|    | <u>-</u>                        | <u>-</u>                 | <u>(42,385)</u>       |
|    | -                               | -                        | 867,000               |
|    | <u>-</u>                        | <u>-</u>                 | <u>29,496</u>         |
|    | 73,853                          | 16,278                   | 1,486,967             |
|    | <u>(23,007)</u>                 | <u>(11,421)</u>          | <u>1,034,761</u>      |
| \$ | <u>50,846</u>                   | \$ <u>4,857</u>          | \$ <u>2,521,728</u>   |
| \$ | <u>2,576</u>                    | \$ <u>(41,976)</u>       | \$ <u>(4,674,249)</u> |
|    | 8,666                           | 4,742                    | 231,555               |
|    | -                               | -                        | (842,013)             |
|    | 1,235                           | 14,486                   | 104,384               |
|    | 250                             | (10,901)                 | (29,299)              |
|    | <u>-</u>                        | <u>-</u>                 | <u>58,000</u>         |
|    | 10,151                          | 8,327                    | (477,373)             |
| \$ | <u>12,727</u>                   | \$ <u>(33,649)</u>       | \$ <u>(5,151,622)</u> |

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

|  | Pension<br>Trust Fund<br>(as of December<br>31, 2004) | Private<br>Purpose<br>Trust Funds | Agency<br>Funds |
|--|---|-----------------------------------|-----------------|
| <b>ASSETS</b>  |   |                                   |                 |
| <b>CURRENT:</b>  |   |                                   |                 |
| Cash and short-term investments.....                       | \$ 95,683,362   | \$ 138,740                        | \$ 47,977       |
| Investments.....   | 27,850,933  | 4,535,759                         | -               |
| Interest and dividends.....                                | 281,186   | -                                 | -               |
| Receivables, net of allowance for uncollectibles:          |   |                                   |                 |
| Departmental and other.....                                | 134,726   | -                                 | -               |
| <b>TOTAL ASSETS.....</b>                                   | <b>123,950,207</b>                                    | <b>4,674,499</b>                  | <b>47,977</b>   |
| <b>LIABILITIES</b>   |   |                                   |                 |
| Warrants payable.....                                      | -   | 110                               | 1,432           |
| Liabilities due depositors.....                            | -   | -                                 | 46,545          |
| <b>TOTAL LIABILITIES.....</b>                              | <b>-</b>  | <b>110</b>                        | <b>47,977</b>   |
| <b>NET ASSETS</b>  |   |                                   |                 |
| Held in trust for pension benefits and other purposes..... | \$ <u>123,950,207</u>                                 | \$ <u>4,674,389</u>               | \$ <u>-</u>     |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2005

|  | Pension<br>Trust Fund<br>(as of December<br>31, 2004) | Private<br>Purpose<br>Trust Funds |
|--|---|-----------------------------------|
| <b>ADDITIONS:</b>                                  |   |                                   |
| Contributions:                                     |   |                                   |
| Employer.....                                      | \$ 6,434,791  | \$ -                              |
| Employee.....                                      | 2,195,961   | -                                 |
| Private donations.....                             | -   | 485,665                           |
| Total contributions.....                           | <u>8,630,752</u>                                      | <u>485,665</u>                    |
| Net investment income (loss):                      |   |                                   |
| Investment income.....                             | <u>13,373,524</u>                                     | <u>360,656</u>                    |
| Less: investment expense.....                      | <u>(442,042)</u>                                      | <u>-</u>                          |
| Net investment income (loss).....                  | <u>12,931,482</u>                                     | <u>360,656</u>                    |
| Intergovernmental.....                             | <u>399,244</u>  | <u>-</u>                          |
| Transfers from other systems.....                  | <u>369,916</u>  | <u>-</u>                          |
| TOTAL ADDITIONS.....                               | <u>22,331,394</u>                                     | <u>846,321</u>                    |
| <b>DEDUCTIONS:</b>                                 |   |                                   |
| Administration.....                                | 153,669   | -                                 |
| Transfers to other systems.....                    | 479,355   | -                                 |
| Retirement benefits and refunds.....               | 12,364,172  | -                                 |
| Human services.....                                | -   | 26,029                            |
| Educational scholarships.....                      | -   | 473,978                           |
| TOTAL DEDUCTIONS.....                              | <u>12,997,196</u>                                     | <u>500,007</u>                    |
| CHANGE IN NET ASSETS.....                          | 9,334,198   | 346,314                           |
| NET ASSETS AT BEGINNING OF YEAR (as restated)..... | <u>114,616,009</u>                                    | <u>4,328,075</u>                  |
| NET ASSETS AT END OF YEAR.....                     | <u>\$ 123,950,207</u>                                 | <u>\$ 4,674,389</u>               |

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 Venture* – 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 to 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 contractual communities. As of July 2005, 100% of the remaining debt service was redeemed and no contingent liabilities related to the debt service exists for the

member communities. NESWC's scheduled dissolution date is September 25, 2005, at which time any remaining equity balances will be returned to the respective member community. As of June 30, 2005, the Town's equity interest of \$1,715,172 in the operation of NESWC is recorded in the Tip Fee Stabilization Fund classified as a Nonmajor Governmental Fund in the financial statements. Complete financial statements for NESWC can be obtained by contacting their administrative offices at 67 South Bedford Street, Suite 201E, Burlington, Massachusetts 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, Tax deferrals 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 Taxes***

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.....       | 20-50                                   |
| Buildings.....               | 50                                      |
| Vehicles.....                | 5-10                                    |
| 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 transfers in and transfers out.

*Government-Wide Financial Statements*

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*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and 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 2006 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, 2005, this expense/expenditure totaled approximately \$3,770,000. There were approximately 1,200 participants eligible to receive benefits at June 30, 2005.

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, 2005 this expense/expenditure amounted to \$9,765. The number of participants covered is not provided by the Commonwealth.

#### P. Fund Deficits

Several individual fund deficits exist at June 30, 2005, within the special revenue and capital projects 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 2006.

At June 30, 2005, the Youth Services enterprise fund had a deficit of \$2,455, and the Recreation enterprise fund had a deficit of \$3,911. 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 combined 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). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

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.



Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Arlington’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$18,923,600 and the bank balance totaled \$20,547,237. Of the bank balance, \$404,530 was covered by Federal Depository Insurance, \$4,933,707 was covered by the Depositors Insurance Fund, and \$15,209,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2004, carrying amount of deposits for the system totaled \$47,191 and the bank balance totaled \$251,439. Of the bank balance, \$251,439 was covered by the Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

Investments

As of June 30, 2005, the Town of Arlington had the following investments:

| Investment Type                | <u>Fair Value</u>    | <u>Maturity<br/>Under 1 Year</u> |
|--------------------------------|----------------------|----------------------------------|
| <u>Debt Securities:</u>        |                      |                                  |
| Repurchase Agreements.....     | \$ 11,749,770        | \$ 11,749,770                    |
| Money Market Mutual Funds..... | <u>171,813</u>       | <u>171,813</u>                   |
| Total Debt Securities.....     | 11,921,583           | <u>\$ 11,921,583</u>             |
| <u>Other Investments:</u>      |                      |                                  |
| Equity Securities.....         | 16,035,685           |                                  |
| MMDT.....                      | <u>7,351,673</u>     |                                  |
| Total Investments.....         | <u>\$ 35,308,941</u> |                                  |

As of December 31, 2004, the System had the following investments:

| Investment Type                            | <u>Maturity</u>       |                     |                     |                     |                      |
|--|-----------------------|---------------------|---------------------|---------------------|----------------------|
|  | <u>Fair Value</u>     | <u>Under 1 Year</u> | <u>1-5 Years</u>    | <u>6-10 Years</u>   | <u>Over 10 Years</u> |
| <u>Debt Securities:</u>                    |                       |                     |                     |                     |                      |
| U.S. Government Securities.....            | \$ 2,140,080          | \$ -                | \$ 148,230          | \$ 139,437          | \$ 1,852,413         |
| Corporate Bonds.....                       | 15,360,544            | 610,942             | 6,561,104           | 4,494,534           | 3,693,964            |
| Federal Home Loan Mortgages.....           | 4,549,874             | -                   | 175,878             | 257,913             | 4,116,083            |
| Federal National Mortgage Association..... | <u>5,800,435</u>      | <u>-</u>            | <u>1,105,675</u>    | <u>334,070</u>      | <u>4,360,690</u>     |
| Total Debt Securities.....                 | 27,850,933            | <u>\$ 610,942</u>   | <u>\$ 7,990,887</u> | <u>\$ 5,225,954</u> | <u>\$ 14,023,150</u> |
| <u>Other Investments:</u>                  |                       |                     |                     |                     |                      |
| Equity Securities.....                     | 16,611,581            |                     |                     |                     |                      |
| Equity Mutual Funds.....                   | 78,688,990            |                     |                     |                     |                      |
| Money Market Mutual Funds.....             | <u>335,600</u>        |                     |                     |                     |                      |
| Total Investments.....                     | <u>\$ 123,487,104</u> |                     |                     |                     |                      |

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town’s investments of \$16,035,685 in equity securities are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and held by the counterparty. The \$11,749,770 repurchase agreement is invested in Collateralized Ginny Mae Government backed securities. The Town’s remaining investments are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book-entry form. The Town does not have an investment policy for custodial credit risk.

Of the system’s investments of \$15,360,544 in corporate bonds, \$4,549,874 in Federal Home Loan Mortgages, \$5,800,435 in Federal National Mortgage Association Securities, \$16,611,581 in equity securities and \$78,688,990 in equity mutual funds, the system has custodial credit risk exposure of \$121,011,424 because the related securities are uninsured, unregistered and held by the counterparty. The system does not have an investment policy for custodial credit risk.

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town has not adopted a formal policy related to Credit Risk. All of the Town’s investments at June 30, 2005 are unrated.

The System has selected a group of investment managers to implement its planning decisions. Sector and security selection, portfolio quality and timing of purchases and sales are delegated to the investment managers. Fixed income instruments are restricted to a minimum of BAA quality. The System’s U.S. Agency Securities and corporate bonds were rated by Moody’s Investment Services (Moody’s) and/or an equivalent national rating organization and the ratings are presented below using the Moody’s rating scale.

| <u>Rated Debt Investments</u> | <u>Fair Value</u>    | <u>Ratings</u>       |                     |                     |                     | <u>Unrated</u>    |
|-------------------------------|----------------------|----------------------|---------------------|---------------------|---------------------|-------------------|
|                               |                      | <u>AAA</u>           | <u>AA</u>           | <u>A</u>            | <u>B</u>            |                   |
| U.S. Agencies.....            | \$ 10,350,309        | \$ 10,350,309        | \$ -                | \$ -                | \$ -                | \$ -              |
| Corporate Bonds.....          | 15,360,544           | 2,394,904            | 1,784,348           | 6,057,831           | 4,672,728           | 450,733           |
| <b>Total.....</b>             | <b>\$ 25,710,853</b> | <b>\$ 12,745,213</b> | <b>\$ 1,784,348</b> | <b>\$ 6,057,831</b> | <b>\$ 4,672,728</b> | <b>\$ 450,733</b> |

Concentration of Credit Risk

The Town places no limit on the amount the government may invest in any one issuer. More than 5 percent of the Town’s investments are in the following securities:

| <u>Issuer</u>   | <u>Percentage of Total Investments</u> |
|---|--|
| Bond Market CTF.....  | 18%                                    |
| Russell Special Small Company Common Trust Fund.....        | 7%                                     |
| State Street Bank and Trust Flagship S&P 500 Inex Fund..... | 16%                                    |
| Repurchase Agreement.....                                   | 33%                                    |
| MMDT.....   | 21%                                    |

The following table indicates the current policy mix of the system. The policy allocation is allowed to vary within a 5% range as indicated in the table. Within these restrictions, the system places no limit on the amount that may be invested in any one issuer.

| Asset Class                 | Current Policy | Range   |         |
|-----------------------------|----------------|---------|---------|
|                             |                | Minimum | Maximum |
| U.S. Stocks.....            | 50%            | 45%     | 55%     |
| International Stocks.....   | 15%            | 10%     | 20%     |
| U.S. Bonds.....             | 30%            | 25%     | 35%     |
| Alternative Investments.... | 5%             | 0%      | 10%     |
| Cash and Equivalents.....   | 0%             | 0%      | 5%      |

More than 5 percent of the system’s investments are in the following securities:

| Issuer   | Percentage of Total Investments |
|--|---------------------------------|
| Oechsle International Advisors Non US Commingled Fund..... | 16%                             |
| S&P 500 Flagship Fund.....                                 | 47%                             |

**NOTE 3 – RECEIVABLES**

At June 30, 2005, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

|  | Gross Amount  | Allowance for Uncollectibles | Net Amount    |
|--|---------------|------------------------------|---------------|
| <u>Receivables:</u>                          |               |                              |               |
| Real estate and personal property taxes..... | \$ 6,067      | \$ -                         | \$ 6,067      |
| Real estate tax deferrals.....               | 285,068       | -                            | 285,068       |
| Tax liens.....                               | 339,307       | -                            | 339,307       |
| Motor vehicle and other excise taxes.....    | 710,280       | (467,116)                    | 243,164       |
| Departmental and other.....                  | 82,192        | (1,388)                      | 80,804        |
| Intergovernmental.....                       | 28,133,518    | -                            | 28,133,518    |
| Loans.....                                   | 1,058,741     | -                            | 1,058,741     |
| Total.....                                   | \$ 30,615,173 | \$ (468,504)                 | \$ 30,146,669 |

At June 30, 2005, receivables for the proprietary funds consist of the following:

|                           | Gross Amount | Allowance for Uncollectibles | Net Amount   |
|---------------------------|--------------|------------------------------|--------------|
| <u>Receivables:</u>       |              |                              |              |
| Water and sewer fees..... | \$ 3,776,295 | \$ -                         | \$ 3,776,295 |

Governmental funds report *deferred revenue* in connection with receivables and other assets 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<br>Fund      | Other<br>Governmental<br>Funds | Total                |
|--|----------------------|--------------------------------|----------------------|
| <u>Receivable and other asset type:</u>      |                      |                                |                      |
| Real estate and personal property taxes..... | \$ 291,135           | \$ -                           | \$ 291,135           |
| Tax Liens.....                               | 339,307              | -                              | 339,307              |
| Motor vehicle excise taxes.....              | 243,164              | -                              | 243,164              |
| Departmental.....                            | 80,804               | -                              | 80,804               |
| State school construction funds.....         | 24,000,000           | -                              | 24,000,000           |
| Tax foreclosures.....                        | 396,784              | -                              | 396,784              |
| Community development entitlements.....      | -                    | 3,505,960                      | 3,505,960            |
| State highway funds (Chapter 90).....        | -                    | 1,172,410                      | 1,172,410            |
| Total.....                                   | <u>\$ 25,351,194</u> | <u>\$ 4,678,370</u>            | <u>\$ 30,029,564</u> |

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

|  | Beginning<br>Balance | Increases           | Decreases           | Ending<br>Balance    |
|--|----------------------|---------------------|---------------------|----------------------|
| <b>Governmental Activities:</b>                        |                      |                     |                     |                      |
| <u>Capital assets not being depreciated:</u>           |                      |                     |                     |                      |
| Land.....  | \$ 10,525,593        | \$ -                | \$ -                | \$ 10,525,593        |
| Construction in progress.....                          | 6,884,563            | 9,292,429           | -                   | 16,176,992           |
| Total capital assets not being depreciated.....        | <u>17,410,156</u>    | <u>9,292,429</u>    | <u>-</u>            | <u>26,702,585</u>    |
| <u>Capital assets being depreciated:</u>               |                      |                     |                     |                      |
| Buildings.....   | 94,614,564           | -                   | -                   | 94,614,564           |
| Improvements.....                                      | 2,201,481            | 740,965             | -                   | 2,942,446            |
| Vehicles and equipment.....                            | 6,642,949            | 856,130             | (455,821)           | 7,043,258            |
| Infrastructure.....                                    | 747,056              | 1,038,804           | -                   | 1,785,860            |
| Total capital assets being depreciated.....            | <u>104,206,050</u>   | <u>2,635,899</u>    | <u>(455,821)</u>    | <u>106,386,128</u>   |
| <u>Less accumulated depreciation for:</u>              |                      |                     |                     |                      |
| Buildings.....   | 29,491,991           | 1,816,141           | -                   | 31,308,132           |
| Improvements.....                                      | 632,317              | 137,214             | -                   | 769,531              |
| Vehicles and equipment.....                            | 4,391,904            | 448,698             | (324,074)           | 4,516,528            |
| Infrastructure.....                                    | 44,096               | 70,159              | -                   | 114,255              |
| Total accumulated depreciation.....                    | <u>34,560,308</u>    | <u>2,472,212</u>    | <u>(324,074)</u>    | <u>36,708,446</u>    |
| Total capital assets being depreciated, net.....       | <u>69,645,742</u>    | <u>163,687</u>      | <u>(131,747)</u>    | <u>69,677,682</u>    |
| Total governmental activities capital assets, net..... | <u>\$ 87,055,898</u> | <u>\$ 9,456,116</u> | <u>\$ (131,747)</u> | <u>\$ 96,380,267</u> |

|   | Beginning<br>Balance | Increases    | Decreases  | Ending<br>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              | 42,385       | (149,795)  | 833,466           |
| Infrastructure.....                                     | 8,957,787            | -            | -          | 8,957,787         |
| Total capital assets being depreciated.....             | 10,694,649           | 42,385       | (149,795)  | 10,587,239        |
| <u>Less accumulated depreciation for:</u>               |                      |              |            |                   |
| Buildings.....  | 81,880               | 14,913       | -          | 96,793            |
| Improvements.....                                       | 6,492                | 3,271        | -          | 9,763             |
| Vehicles and equipment.....                             | 735,348              | 58,089       | (143,809)  | 649,628           |
| Infrastructure.....                                     | 1,869,572            | 149,296      | -          | 2,018,868         |
| Total accumulated depreciation.....                     | 2,693,292            | 225,569      | (143,809)  | 2,775,052         |
| Total capital assets being depreciated, net.....        | 8,001,357            | (183,184)    | (5,986)    | 7,812,187         |
| Total business-type activities capital assets, net..... | \$ 8,004,311         | \$ (183,184) | \$ (5,986) | \$ 7,815,141      |

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

**Governmental Activities:**

|                             |            |
|-----------------------------|------------|
| General government.....     | \$ 178,357 |
| Public safety.....          | 121,891    |
| Education.....              | 1,455,178  |
| Public works.....           | 217,455    |
| Human services.....         | 3,068      |
| Culture and recreation..... | 172,189    |

Total depreciation expense - governmental activities..... \$ 2,148,138

**Business-Type Activities:**

|                             |            |
|-----------------------------|------------|
| Public works.....           | \$ 213,036 |
| Human services.....         | 5,111      |
| Culture and recreation..... | 13,408     |

Total depreciation expense - business-type activities..... \$ 231,555

**NOTE 5 – INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2005, are summarized as follows:

| Transfers Out:                   | Transfers In:       |                             |                                 |                                |                                  |                                |                            | Total               |
|----------------------------------|---------------------|-----------------------------|---------------------------------|--------------------------------|----------------------------------|--------------------------------|----------------------------|---------------------|
|                                  | General Fund        | Nonmajor Governmental Funds | Water and Sewer Enterprise Fund | Youth Services Enterprise Fund | Council on Aging Enterprise Fund | Veterans' Rink Enterprise Fund | Recreation Enterprise Fund |                     |
| General Fund.....                | \$ -                | \$ 546,000                  | \$ 5,152,412                    | \$ 204,508                     | \$ 7,822                         | \$ 61,126                      | \$ 26,996                  | \$ 5,998,864        |
| Nonmajor Governmental Funds..... | 3,647,820           | 170,000                     | -                               | -                              | -                                | -                              | 22,931                     | 3,840,751           |
| Total.....                       | <u>\$ 3,647,820</u> | <u>\$ 716,000</u>           | <u>\$ 5,152,412</u>             | <u>\$ 204,508</u>              | <u>\$ 7,822</u>                  | <u>\$ 61,126</u>               | <u>\$ 49,927</u>           | <u>\$ 9,839,615</u> |

**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, 2005, is as follows:

| Type | Purpose              | Rate (%) | Due Date | Balance at June 30, 2004 | Renewed/ Issued      | Retired/ Redeemed    | Balance at June 30, 2005 |
|------|----------------------|----------|----------|--------------------------|----------------------|----------------------|--------------------------|
| BAN  | Symmes Property..... | 1.75     | 04/08/05 | \$ 2,500,000             | \$ -                 | \$ 2,500,000         | \$ -                     |
| BAN  | Symmes Property..... | 1.75     | 04/08/05 | 8,000,000                | -                    | 8,000,000            | -                        |
| BAN  | Symmes Property..... | 1.75     | 04/08/05 | 550,000                  | -                    | 550,000              | -                        |
| BAN  | Symmes Property..... | 4.00     | 04/06/06 | -                        | 11,500,000           | -                    | 11,500,000               |
| BAN  | Symmes Property..... | 3.00     | 07/21/05 | -                        | 10,745,000           | -                    | 10,745,000               |
|      |                      |          |          | <u>\$ 11,050,000</u>     | <u>\$ 22,245,000</u> | <u>\$ 11,050,000</u> | <u>\$ 22,245,000</u>     |

On July 21, 2005, the Town paid down the \$10,745,000 BAN for Symmes Property and entered into a new \$8,260,000 BAN for the Dallin School that has a due date of July 20, 2006, with an interest rate of 3.75%.

**NOTE 7 – LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% 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, 2005, and the debt service requirements are as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

| Project                               | Interest<br>Rate<br>(%) | Outstanding<br>at June 30,<br>2004 | Issued       | Redeemed     | Outstanding<br>at June 30,<br>2005 |
|---------------------------------------|-------------------------|------------------------------------|--------------|--------------|------------------------------------|
| Municipal Purpose - 1996.....         | 4.33                    | \$ 490,000                         | \$ -         | \$ 270,000   | \$ 220,000                         |
| Municipal Purpose - 1997.....         | 5.16                    | 4,390,000                          | -            | 3,220,000    | 1,170,000                          |
| Municipal Purpose - 1997.....         | 5.22                    | 3,575,000                          | -            | 2,750,000    | 825,000                            |
| Municipal Purpose - 1999.....         | 4.00 - 6.00             | 13,180,000                         | -            | 1,125,000    | 12,055,000                         |
| Municipal Purpose - 2000.....         | 5.10                    | 6,210,000                          | -            | 560,000      | 5,650,000                          |
| Municipal Purpose - 2002.....         | 3.75 - 4.88             | 14,450,000                         | -            | 1,245,000    | 13,205,000                         |
| Municipal Purpose - 2003.....         | 4.5                     | 7,392,000                          | -            | 797,000      | 6,595,000                          |
| Municipal Purpose - 2004.....         | 2.50 - 3.75             | -                                  | 3,980,000    | -            | 3,980,000                          |
| GOB Refunding - 2005.....             | 3.00 - 5.00             | -                                  | 3,100,000    | -            | 3,100,000                          |
| GOB Refunding - 2005.....             | 3.00 - 5.00             | -                                  | 2,630,000    | -            | 2,630,000                          |
| Total governmental bonds payable..... |                         | \$ 49,687,000                      | \$ 9,710,000 | \$ 9,967,000 | \$ 49,430,000                      |

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

|             | <u>Principal</u>     | <u>Interest</u>      | <u>Total</u>         |
|-------------|----------------------|----------------------|----------------------|
| 2006.....   | \$ 4,970,000         | \$ 2,305,516         | \$ 7,275,516         |
| 2007.....   | 4,510,000            | 2,116,891            | 6,626,891            |
| 2008.....   | 4,450,000            | 1,945,607            | 6,395,607            |
| 2009.....   | 3,990,000            | 1,642,762            | 5,632,762            |
| 2010.....   | 3,745,000            | 1,333,593            | 5,078,593            |
| 2011.....   | 3,510,000            | 1,189,951            | 4,699,951            |
| 2012.....   | 3,370,000            | 1,047,628            | 4,417,628            |
| 2013.....   | 3,300,000            | 908,675              | 4,208,675            |
| 2014.....   | 3,275,000            | 767,877              | 4,042,877            |
| 2015.....   | 3,255,000            | 627,002              | 3,882,002            |
| 2016.....   | 2,930,000            | 485,961              | 3,415,961            |
| 2017.....   | 2,940,000            | 349,652              | 3,289,652            |
| 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              |
| Totals..... | <u>\$ 49,430,000</u> | <u>\$ 15,290,601</u> | <u>\$ 64,720,601</u> |

**Bonds and Notes Payable Schedule – Water and Sewer Enterprise Fund**

| <u>Project</u>                          | <u>Interest Rate (%)</u> | <u>Outstanding at June 30, 2004</u> | <u>Issued</u>     | <u>Redeemed</u> | <u>Outstanding at June 30, 2005</u> |
|---|--------------------------|-------------------------------------|-------------------|-----------------|-------------------------------------|
| Water Bond - MWRA.....                  | -                        | \$ -                                | \$ 700,000        | \$ -            | \$ 700,000                          |
| Sewer Bond - MWRA.....                  | -                        | -                                   | 189,585           | -               | 189,585                             |
| Sewer Bond - MWRA.....                  | -                        | -                                   | 19,800            | -               | 19,800                              |
| Total enterprise fund bonds payable.... |                          | <u>\$ -</u>                         | <u>\$ 909,385</u> | <u>\$ -</u>     | <u>\$ 909,385</u>                   |

The Town is a member of the Massachusetts Water Resources Authority (MWRA) which offers its members interest free loans for various purposes. During fiscal year 2005, the Town received \$909,385 from this program in the form of two sewer bonds which are repayable in 5 equal annual installments and one water bond which is repayable in 10 equal annual installments.



Debt service requirements for the water and sewer enterprise fund bonds and notes payable in future fiscal years are as follows:

|             | <u>Principal</u>  |
|-------------|-------------------|
| 2006.....   | \$ 111,877        |
| 2007.....   | 111,877           |
| 2008.....   | 111,877           |
| 2009.....   | 111,877           |
| 2010.....   | 111,877           |
| 2011.....   | 70,000            |
| 2012.....   | 70,000            |
| 2013.....   | 70,000            |
| 2014.....   | 70,000            |
| 2015.....   | <u>70,000</u>     |
| Totals..... | <u>\$ 909,385</u> |

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2005, \$1,837,790 of such assistance was received. Approximately \$27,964,000 will be received in future fiscal years. Of this amount, approximately \$3,964,000 represents reimbursement of long-term interest costs, and approximately \$24,000,000 represents reimbursement of approved construction costs. Accordingly, a \$24,000,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The net change in deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In order to take advantage of favorable interest rates, the Town issued \$5,730,000 of General Obligation Refunding Bonds on February 1, 2005. \$5,405,000 of general obligation bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$371,357. This amount is recorded as deferred charges on refunding and is being amortized over the life of the refunded debt, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 12 years by \$452,990 and resulted in an economic gain of \$392,528. At June 30, 2005, approximately \$5,405,000 of bonds outstanding from the advance refunding is considered defeased.

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, 2005, the Town had the following authorized and unissued debt:

| Purpose                         | Amount               |
|---------------------------------|----------------------|
| Suburban renewal.....           | \$ 2,310,000         |
| School construction.....        | 1,070,975            |
| Sewer and water facilities..... | 5,190,134            |
| Capital Plan.....               | 5,071,627            |
| Upgrade and Repairs.....        | 120                  |
| Financing.....                  | 900                  |
| Private Ways.....               | 300,000              |
| Total.....                      | <u>\$ 13,943,756</u> |

### Changes in long-term liabilities

During the fiscal year ended June 30, 2005, the following changes occurred in long-term liabilities:

|                                     | Beginning<br>Balance | Additions            | Reductions             | Ending<br>Balance    | Current<br>Portion  |
|-------------------------------------|----------------------|----------------------|------------------------|----------------------|---------------------|
| <b>Governmental Activities:</b>     |                      |                      |                        |                      |                     |
| Long-Term Bonds and Notes.....      | \$ 49,687,000        | \$ 9,710,000         | \$ (9,967,000)         | \$ 49,430,000        | \$ 4,970,000        |
| Workers' Compensation.....          | 1,002,200            | 308,277              | (363,477)              | 947,000              | 70,500              |
| Compensated Absences.....           | 5,125,000            | 279,000              | -                      | 5,404,000            | 3,525,000           |
| Total governmental activities.....  | <u>\$ 55,814,200</u> | <u>\$ 10,297,277</u> | <u>\$ (10,330,477)</u> | <u>\$ 55,781,000</u> | <u>\$ 8,565,500</u> |
| <b>Business-Type Activities:</b>    |                      |                      |                        |                      |                     |
| Long-Term Bonds and Notes.....      | \$ -                 | \$ 909,385           | \$ -                   | \$ 909,385           | \$ 111,877          |
| Compensated Absences.....           | 140,000              | 58,000               | -                      | 198,000              | 77,000              |
| Total business-type activities..... | <u>\$ 140,000</u>    | <u>\$ 967,385</u>    | <u>\$ -</u>            | <u>\$ 1,107,385</u>  | <u>\$ 188,877</u>   |

### **NOTE 8 – STABILIZATION FUND**

At June 30, 2005, the Town has \$765,836 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 STABILIZATION FUND**

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

Town meeting may appropriate from the tip fee stabilization fund to fund any of the Town's financial obligations associated with the existing solid waste agreement with WNAI, or a successor agreement, in association with NESWC. In addition, to provide for extraordinary and unforeseen expenditures, the Town Manager, with the

approval of the Board of Selectmen and the Finance Committee, may expend up to 10% of the fund without further appropriation. Beginning in the fiscal year commencing July 1, 2005, Town Meeting, by two-thirds vote, may appropriate from the tip fee stabilization fund for any lawful purpose.

The Town has \$3,523,104 in the tip fee stabilization fund at June 30, 2005, 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 2005 consists of the following:

|   |                     |
|---|---------------------|
| Fund balance at June 30, 2004.....  | \$ 4,176,033        |
| Proceeds from the sale of excess tonnage capacity, recycled materials, disposal of solid waste and other revenues from NESWC..... | 1,660,292           |
| Investment income.....  | 124,374             |
| Transfer to the general fund.....   | <u>(2,437,595)</u>  |
| Fund balance at June 30, 2005.....  | <u>\$ 3,523,104</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 one and a half month claims paid average for six months prior to fiscal year-end. At June 30, 2005, the amount of the liability for incurred but not reported health insurance claims totaled \$1,261,000. The health claims payable of \$1,452,000, reported on the balance sheet and statement of net assets, represents the \$1,261,000 IBNR, plus a \$191,000 settlement of known claims for the fourth quarter of fiscal year 2005. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2003, are as follows:

|                       | Balance at<br>Beginning of<br>Fiscal Year | Current Year<br>Claims and<br>Changes in<br>Estimate | Claims<br>Payments | Balance at<br>Fiscal<br>Year-End |
|-----------------------|---|--|--------------------|----------------------------------|
| Fiscal Year 2004..... | \$ 1,306,000                              | \$ 7,615,777   | \$ (7,067,777)     | \$ 1,854,000                     |
| Fiscal Year 2005..... | 1,854,000                                 | 7,710,437  | (8,112,437)        | 1,452,000                        |

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 \$236,000 in the fund at June 30, 2005, 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, 2005, the amount of the liability for workers' compensation claims totaled \$947,000. This liability is the Town's best estimate based on available information. Changes in the reported liability since July 1, 2003, are as follows:

|                       | Balance at<br>Beginning of<br>Fiscal Year |    | Current Year<br>Claims and<br>Changes in<br>Estimate |    | Claims<br>Payments |    | Balance at<br>Fiscal<br>Year-End |
|-----------------------|---|----|--|----|--------------------|----|----------------------------------|
| Fiscal Year 2004..... | \$ 1,085,400                              | \$ | 320,136  | \$ | (403,336)          | \$ | 1,002,200                        |
| Fiscal Year 2005..... | 1,002,200                                 |    | 308,277  |    | (363,477)          |    | 947,000                          |

**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 \$8,205,000 for the fiscal year ended June 30, 2005, 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, 2004, the System's membership consists of the following:

|  |                     |
|--|---------------------|
| Active members.....  | 748                 |
| Inactive members.....  | 133                 |
| Retirees and beneficiaries currently receiving benefits..... | <u>628</u>          |
| Total.....   | <u><u>1,509</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, 2005, 2004, and 2003 were \$6,434,791, \$5,538,223 and \$5,231,836 respectively, which equaled its required contribution for each fiscal year. At June 30, 2005, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% 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, 2004, was 17 years.

**Schedule of Funding Progress  
(Dollar amounts in thousands)**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(A) | Actuarial<br>Accrued<br>Liability (AAL)<br>Entry Age<br>(B) | Unfunded<br>AAL<br>(UAAL)<br>(B-A) | Funded<br>Ratio<br>(A/B) | Covered<br>Payroll<br>(C) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 1/1/04                         | \$ 103,154                             | \$ 167,816  | \$ 64,662                          | 61.5%                    | \$ 23,984                 | 269.6%  |
| 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                         | 121,539                                | 145,054   | 23,515                             | 83.8%                    | 22,757                    | 103.3%  |
| 1/1/00                         | 115,627                                | 143,325   | 27,698                             | 80.7%                    | 21,242                    | 130.4%  |
| 1/1/99                         | 106,185                                | 136,093   | 29,908                             | 78.0%                    | 20,781                    | 143.9%  |
| 1/1/98                         | 96,318                                 | 127,057   | 30,739                             | 75.8%                    | 19,834                    | 155.0%  |
| 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 2005 totaled approximately \$181,000.

**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 \$3,317,595 in fiscal year 2005. 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 million to provide the Arlington Redevelopment Board with funds for the purchase, operation, maintenance and development of the former Symmes Hospital site, which is 18 acres in area and has two buildings, one of which is the former Symmes Hospital. The Town has operated the site with two major tenants occupying part of the former hospital building which it conducted an extensive study of the potential re-use of the property.

The Arlington Redevelopment Board issued requests for proposals, and in February 2004 chose E. A. Fish Associates to purchase and redevelop the property. The Redevelopment Board negotiated a Land Disposition Agreement in August 2004. At the end of Fiscal 2005, the developer was in the process of getting the special permits it needs to redevelop the site. The terms of the sale have been amended to allow the developer to postpone closing until June 2006. Beginning in November 2005 the developer will pay the expenses of the Town for holding the property for the extended time period. It is expected that the sales price will repay most of the current indebtedness at closing with the remainder to be recouped over a three to four year period. Total net expenditures are expected to be almost \$12 million at the time of closing on the property sale. The site will be redeveloped to accommodate 255 residential units and a medial office building with more than half the land area remaining in open space all according to the urban renewal plan adopted by Town Meeting.

### Reed's Brook Site

In 1995, the Town Meeting voted to purchase a 20 acre parcel of land that had been used as a sanitary landfill up until 1970. The Town subsequently purchased an abutting 2 acres of land and voted to create a park on the site. The first phase of the project which consisted of extensive storm drain improvements and the moving of 90,000 cubic yards of material was completed in the fall of 2002. The second phase of the project which included the construction of playing fields and landscaping was essentially completed in September 2004. The parks walking paths have been available for use while the landscape materials matured. The tot lot structures will be installed by the community in September 2005 and it is expected that the playing fields will be ready for play in the Spring of 2006.

The total project cost is nearly \$7.5 million of which the Town has supplied \$4.78 million. The remaining funds were supplied by grants from the Massachusetts Highway Department (\$678,316), Federal Emergency Management Administration (\$754,457) and Federal Community Development Block Grant (\$1,284,500).

## **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, 2005, 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, 2005, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2005.

**NOTE 14 – RESTATEMENT OF BEGINNING FUND BALANCES**

Beginning fund balances for the Non-major Governmental Funds and Private Purpose Trust Funds have been restated as of June 30, 2004 to reclassify \$616,997 from non-major governmental funds to private purpose trust fund. Accordingly, an adjustment has been made in this report to restate the beginning balances from \$19,634,238 to \$19,017,241 for the non-major governmental funds and \$3,711,078 to \$4,328,075 for the private purpose trust funds and on the entity-wide statements, the beginning balance of governmental net assets has been restated from \$83,161,980 to 82,559,987.

**NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2005, the following GASB pronouncement was implemented:

The GASB issued Statement #40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3*. This pronouncement will only require changes to the note disclosure.

*Other Future GASB Pronouncements:*

The GASB issued Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented in Fiscal 2006. Management does not believe that this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in Fiscal 2007. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

The GASB issued Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented in Fiscal 2006. This new GASB establishes and modifies requirements related to supplementary information presented in a statistical section. The presentation of a statistical section is not required by this pronouncement. This pronouncement will not impact the basic financial statements.

The GASB issued Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in Fiscal 2009. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

The GASB issued Statement # 46, *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. It requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This statement is required to be implemented in FY2006. Management believes that this statement will not effect on the basic financial statements.

The GASB issued Statement # 47, *Accounting for Termination Benefits*. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. This statement is required to be implemented in FY2006. Management believes that this statement will not effect on the basic financial statements.

***Required Supplementary Information***



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

FISCAL YEAR ENDED JUNE 30, 2005

|   | Budgeted Amounts                              |                                   |                     |                     |
|---|---|-----------------------------------|---------------------|---------------------|
|   | Amounts<br>Carried forward<br>From Prior Year | Current Year<br>Initial<br>Budget | Original<br>Budget  | Final<br>Budget     |
| <b>REVENUES:</b>  |   |                                   |                     |                     |
| Real estate and personal property taxes,<br>net of tax refunds..... | \$ -  | \$ 65,135,368                     | \$ 65,135,368       | \$ 65,135,368       |
| Tax liens.....  | -   | -                                 | -                   | -                   |
| Motor vehicle and other excise taxes.....                           | -   | 4,400,000                         | 4,400,000           | 4,400,000           |
| Hotel/motel tax.....  | -   | -                                 | 90,000              | 90,000              |
| Intergovernmental.....  | -   | 14,939,288                        | 14,939,288          | 14,939,288          |
| Departmental and other.....   | -   | 3,670,600                         | 3,670,600           | 3,670,600           |
| Investment income.....  | -   | 302,000                           | 302,000             | 302,000             |
| <b>TOTAL REVENUES.....</b>  | <b>-</b>                                      | <b>88,447,256</b>                 | <b>88,537,256</b>   | <b>88,537,256</b>   |
| <b>EXPENDITURES:</b>  |   |                                   |                     |                     |
| Current:  |   |                                   |                     |                     |
| General government.....   | 382,587                                       | 5,501,852                         | 5,884,439           | 4,332,790           |
| Public safety.....  | 67,768  | 10,501,557                        | 10,569,325          | 11,471,972          |
| Education.....  | 4,482,726                                     | 34,323,464                        | 38,806,190          | 38,961,251          |
| Public works.....   | 379,661                                       | 5,051,995                         | 5,431,656           | 8,018,701           |
| Property and natural resources.....                                 | 123,688                                       | 1,560,019                         | 1,683,707           | 1,803,281           |
| Community development.....  | 1,847   | 412,240                           | 414,087             | 599,013             |
| Human services.....   | 50,183  | 561,454                           | 611,637             | 659,645             |
| Library.....  | 1,662   | 1,510,638                         | 1,512,300           | 1,616,811           |
| Pension benefits.....   | -   | 6,107,184                         | 6,107,184           | 5,936,350           |
| Employee benefits.....  | 428,019                                       | 10,622,985                        | 11,051,004          | 10,752,004          |
| Claims and judgments.....   | -   | -                                 | -                   | -                   |
| State and county charges.....                                       | -   | 2,682,860                         | 2,682,860           | 2,670,980           |
| Debt service:   |   |                                   |                     |                     |
| Principal.....  | -   | 4,562,000                         | 4,562,000           | 4,562,000           |
| Interest.....   | -   | 2,219,130                         | 2,219,130           | 2,219,130           |
| <b>TOTAL EXPENDITURES.....</b>                                      | <b>5,918,141</b>                              | <b>85,617,378</b>                 | <b>91,535,519</b>   | <b>93,603,928</b>   |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>       | <b>(5,918,141)</b>                            | <b>2,829,878</b>                  | <b>(2,998,263)</b>  | <b>(5,066,672)</b>  |
| <b>OTHER FINANCING SOURCES (USES):</b>                              |   |                                   |                     |                     |
| Premium from issuance of bonds.....                                 | -   | -                                 | -                   | -                   |
| Transfers in.....   | -   | 1,335,345                         | 1,335,345           | 3,816,196           |
| Transfers out.....  | -   | (6,015,156)                       | (6,015,156)         | (6,210,436)         |
| <b>TOTAL OTHER FINANCING SOURCES (USES).....</b>                    | <b>-</b>                                      | <b>(4,679,811)</b>                | <b>(4,679,811)</b>  | <b>(2,394,240)</b>  |
| <b>NET CHANGE IN FUND BALANCE.....</b>                              | <b>(5,918,141)</b>                            | <b>(1,849,933)</b>                | <b>(7,678,074)</b>  | <b>(7,460,912)</b>  |
| <b>BUDGETARY FUND BALANCE, Beginning of year.....</b>               | <b>11,374,816</b>                             | <b>11,374,816</b>                 | <b>11,374,816</b>   | <b>11,374,816</b>   |
| <b>BUDGETARY FUND BALANCE, End of year.....</b>                     | <b>\$ 5,456,675</b>                           | <b>\$ 9,524,883</b>               | <b>\$ 3,696,742</b> | <b>\$ 3,913,904</b> |

See notes to required supplementary information.

| Actual<br>Budgetary<br>Amounts | Amounts<br>Carried Forward<br>To Next Year | Variance<br>to Final<br>Budget |
|--------------------------------|--|--------------------------------|
| \$ 65,203,365                  | \$ -                                       | \$ 67,997                      |
| 153,990                        | -  | 153,990                        |
| 4,196,715                      | -  | (203,285)                      |
| 113,104                        | -  | 23,104                         |
| 15,732,014                     | -  | 792,726                        |
| 3,571,208                      | -  | (99,392)                       |
| 555,994                        | -  | 253,994                        |
| <u>89,526,390</u>              | <u>-</u>                                   | <u>989,134</u>                 |
| 4,052,630                      | 276,896                                    | 3,264                          |
| 11,417,277                     | 50,799                                     | 3,896                          |
| 34,020,638                     | 4,112,784                                  | 827,829                        |
| 8,162,889                      | 277,604                                    | (421,792)                      |
| 1,700,803                      | 59,379                                     | 43,099                         |
| 573,060                        | 25,180                                     | 773                            |
| 606,699                        | 5,655                                      | 47,291                         |
| 1,616,518                      | 208  | 85                             |
| 5,828,898                      | -  | 107,452                        |
| 10,502,698                     | -  | 249,306                        |
| 92,192                         | -  | (92,192)                       |
| 2,651,177                      | -  | 19,803                         |
| 4,562,000                      | -  | -                              |
| <u>2,079,078</u>               | <u>-</u>                                   | <u>140,052</u>                 |
| <u>87,866,557</u>              | <u>4,808,505</u>                           | <u>928,866</u>                 |
| <u>1,659,833</u>               | <u>(4,808,505)</u>                         | <u>1,918,000</u>               |
| 153,882                        | -  | 153,882                        |
| 3,816,196                      | -  | -                              |
| <u>(6,210,436)</u>             | <u>-</u>                                   | <u>-</u>                       |
| <u>(2,240,358)</u>             | <u>-</u>                                   | <u>153,882</u>                 |
| (580,525)                      | (4,808,505)                                | 2,071,882                      |
| <u>11,818,297</u>              | <u>-</u>                                   | <u>-</u>                       |
| \$ <u><u>11,237,772</u></u>    | \$ <u><u>(4,808,505)</u></u>               | \$ <u><u>2,071,882</u></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.

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 2005 original budget includes approximately \$91.6 million in current year authorized appropriations and other amounts to be raised and \$5.9 million in encumbrances and appropriations were carried over from previous fiscal years. During fiscal year 2005, net increases to the original budget were approved totaling \$2.2 million.

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, 2005, is presented as follows:

|  |              |
|--|--------------|
| Net change in fund balance, budgetary basis.....   | \$ (580,525) |
| <u>Perspective difference:</u>   |              |
| Activity of health insurance, municipal building insurance<br>and retirees health care trust recorded in the general fund<br>for GAAP..... | 60,760       |
| <u>Basis of accounting differences:</u>  |              |
| Recognition of revenue based on available criteria.....  | (94,000)     |
| Recognition of expenditures on modified accrual basis.....   | (8,883)      |
| Recognition of revenue for on-behalf payment.....  | (8,204,671)  |
| Recognition of expenditure for on-behalf payment.....  | 8,204,671    |
| Net change in fund balance, GAAP basis.....  | \$ (622,648) |

C. Appropriation Deficits

During fiscal year 2005, general fund expenditures exceeded budgeted appropriations for public works and state and county charges. These deficits will be funded through fiscal year 2006 real estate taxes and with available funds.