

TOWN OF ARLINGTON, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2010

TOWN OF ARLINGTON, MASSACHUSETTS

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Independent Auditors' Report

To the Board of Selectmen
Town of Arlington, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Arlington, Massachusetts, as of and for the fiscal year ended June 30, 2010 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2009), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Arlington, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Arlington, Massachusetts, as of June 30, 2010 (except for the Arlington Contributory Retirement System which is as of December 31, 2009), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010, on our consideration of the Town of Arlington, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, retirement system schedule of employer contributions, retirement system schedule of funding progress, other postemployment benefits schedule of funding progress and employer contributions and other postemployment benefits actuarial methods and assumptions, 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.

Powers & Sullivan

November 22, 2010

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, 2010. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, community development, human services, library, culture and recreation, claims and judgments, and interest. The business-type activities include the activities of the water and sewer department, youth services, council on aging, veterans' rink and the recreation department.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 proprietary 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 proprietary 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 \$104.7 million at the close of fiscal year 2010.

The largest portion of the Town's net assets, \$87.7 million, 84%, 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 \$8.8 million, 8% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$8.2 million, 8% may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

	Balance at June 30, 2010	Balance at June 30, 2009	Increase (Decrease)
Assets:			
Current assets.....	\$ 51,444,097	\$ 48,995,314	\$ 2,448,783
Noncurrent assets (excluding capital).....	18,104,617	20,359,711	(2,255,094)
Capital assets.....	115,258,148	115,212,571	45,577
Total assets.....	184,806,862	184,567,596	239,266
Liabilities:			
Current liabilities (excluding debt).....	12,102,100	12,894,340	(792,240)
Noncurrent liabilities (excluding debt).....	12,451,448	6,156,651	6,294,797
Current debt.....	12,684,000	12,305,000	379,000
Noncurrent debt.....	42,845,000	41,290,000	1,555,000
Total liabilities.....	80,082,548	72,645,991	7,436,557
Net Assets:			
Capital assets net of related debt.....	87,746,066	87,212,587	533,479
Restricted.....	8,826,403	8,734,994	91,409
Unrestricted.....	8,151,845	15,974,024	(7,822,179)
Total net assets.....	\$ 104,724,314	\$ 111,921,605	\$ (7,197,291)

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. Within the business-type activities, the Town reported a \$19,000 deficit balance for the youth services enterprise fund which is the result of recording \$63,000 in long-term other postemployment benefits.

The governmental activities net assets decreased by \$7.2 million during the current fiscal year. The primary reasons for this decrease were the recognition of the other postemployment benefit obligation of approximately \$6.3 million; a \$498,000 transfer from the general government to the other postemployment benefits trust fund which is reported as a fiduciary fund and, accordingly, is not included in the government-wide financial statements; and the use of approximately \$3.4 million in stabilization funds to finance current operations.

Of the decrease in noncurrent assets (excluding capital), \$2 million is due to the reduction in the intergovernmental receivable from the Massachusetts School Building Association, as school construction funds are received annually which are used to retire debt outstanding for school construction projects.

In prior fiscal years the Town had recognized decreases in the market value of investments in the trust accounts, some of which are categorized within the special revenue and permanent funds within the governmental activities. In fiscal year 2010, the Town recouped some of the losses through a settlement with the investment advisor. This has resulted in a significant increase in unrestricted investment income.

The reduction in nonrestrictive grants and contributions is almost entirely the result of a net decrease in unrestricted state aid and lottery funds totaling \$1.8 million.

The increase in operating grants and contributions is primarily the result of federal recovery act grants received in fiscal year 2010.

General governmental expenditures decreased by \$1.2 million from 2009 to 2010. This is due to increased costs in fiscal year 2009 for legal expenses and revaluation costs and because a non-capital portion of the Reeds Brook project was expensed by the Town in fiscal year 2009.

Governmental Activities

	June 30, 2010	June 30, 2009	Increase (Decrease)
Program revenues:			
Charges for services.....	\$ 10,166,337	\$ 9,047,461	\$ 1,118,876
Operating grants and contributions.....	31,592,875	27,903,309	3,689,566
Capital grants and contributions.....	439,717	1,261,570	(821,853)
General revenues:			
Real estate and personal property taxes.....	82,619,163	80,231,602	2,387,561
Tax liens.....	365,156	195,242	169,914
Motor vehicle and other excise taxes.....	3,757,148	3,775,636	(18,488)
Hotel/motel tax.....	165,114	136,490	28,624
Penalties and interest on taxes.....	267,528	172,006	95,522
Nonrestricted grants and contributions.....	7,202,804	8,937,673	(1,734,869)
Unrestricted investment income.....	273,786	(1,541,229)	1,815,015
Miscellaneous revenues.....	88,067	10,967	77,100
Total revenues.....	136,937,695	130,130,727	6,806,968
Expenses:			
General government.....	9,914,031	11,091,158	(1,177,127)
Public safety.....	23,893,787	22,816,248	1,077,539
Education.....	79,863,607	77,464,198	2,399,409
Public works.....	12,913,532	12,675,549	237,983
Community and economic development.....	4,545,071	4,268,507	276,564
Human services.....	1,617,701	1,376,459	241,242
Library.....	3,357,258	3,187,101	170,157
Culture and recreation.....	338,759	328,490	10,269
Claims and judgments.....	25,000	25,000	-
Interest.....	1,792,028	1,910,994	(118,966)
Total expenses.....	138,260,774	135,143,704	3,117,070
Transfers.....	(5,874,212)	(6,339,143)	464,931
Change in net assets.....	\$ (7,197,291)	\$ (11,352,120)	\$ 4,154,829

Business-Type Activities

	Balance at June 30, 2010	Balance at June 30, 2009	Increase (Decrease)
Assets:			
Current assets.....	\$ 11,078,281	\$ 11,851,727	\$ (773,446)
Capital assets.....	15,611,359	12,376,160	3,235,199
Total assets.....	26,689,640	24,227,887	2,461,753
Liabilities:			
Current liabilities (excluding debt).....	530,210	335,988	194,222
Noncurrent liabilities (excluding debt).....	341,124	316,950	24,174
Current debt.....	1,063,945	869,598	194,347
Noncurrent debt.....	5,865,014	4,697,839	1,167,175
Total liabilities.....	7,800,293	6,220,375	1,579,918
Net Assets:			
Capital assets net of related debt.....	10,253,410	8,515,544	1,737,866
Unrestricted.....	8,635,937	9,491,968	(856,031)
Total net assets.....	\$ 18,889,347	\$ 18,007,512	\$ 881,835

There was a net increase of \$881,000 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 2010 by approximately \$5.6 million to offset a portion of the costs associated with the repayment of debt to the Massachusetts Water Resources Authority. The majority of the increase, \$855,000, is a result of the operating activities of the water and sewer enterprise fund and is primarily due to an increase in rates on July 1, 2009 and January 1, 2010.

The increase in net assets invested in capital assets net of related debt is primarily due to the water and sewer enterprise fund's investment in water and sewer lines, totaling approximately \$1.6 million in fiscal year 2010 which was funded through available funds.

Business-Type Activities

	June 30, 2010	June 30, 2009	Increase (Decrease)
Program revenues:			
Charges for services.....	\$ 11,422,089	\$ 10,838,013	\$ 584,076
Operating grants and contributions.....	111,396	267,723	(156,327)
Capital grants and contributions.....	36,871	36,871	-
General revenues:			
Unrestricted investment income.....	40,215	55,196	(14,981)
Total revenues.....	11,610,571	11,197,803	412,768
Expenses:			
Water and Sewer.....	15,053,016	14,510,909	542,107
Youth Services.....	416,415	523,919	(107,504)
Council on Aging.....	90,648	103,857	(13,209)
Veterans' Rink.....	491,960	519,886	(27,926)
Recreation.....	550,909	561,902	(10,993)
Total expenses.....	16,602,948	16,220,473	382,475
Transfers.....	5,874,212	6,339,143	(464,931)
Change in net assets.....	\$ 881,835	\$ 1,316,473	\$ (434,638)

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 \$29.8 million, a decrease of \$2.4 million from the prior year. Of this decrease, \$3.1 million was the result of the budgeted transfer from the town stabilization fund to the general fund which was used to fund current operations.

The general fund budgeted to use \$2 million of reserves, of which \$1.5 million was from available funds "free cash" and \$500,000 in prior reserves released by the board of assessors "overlay surplus" to balance the fiscal year 2010 budget. The actual result of operations collected approximately \$1.3 million more than budgeted and departmental budgets expended \$1.3 million more than budgeted. The appropriation deficits in public works, state and county charges and claims and judgments stem from snow and ice deficits, state assessments and court judgment payments which are allowed to be expended without appropriation and raised on the subsequent tax recapitulation sheet. The \$1.5 million budget deficit in the Education line item is the result of the School Department overspending their operating budget. This is an illegal deficit which the Town will be required to raise in the next fiscal year. The general fund's operations, in the fund financial statements include the activity of the health insurance trust funds which accounts for \$1.2 million of the increase in Fiscal Year 2010. Additionally, the Town received an unbudgeted bond premium which has been reserved for debt service on the balance sheet.

The Town's stabilization major fund is used to account for activities of the Town's three stabilization funds. The first is the Town's stabilization fund, which had a year end balance of \$6 million. This fund can be used for general or capital purposes with Town Meeting's approval. The second is the Tip Fee Stabilization fund. This fund was initially created with proceeds from the sale of recycled materials and the sale of excess tonnage capacity at the facility of Wheelabrator North Andover, Inc., and other receipts arising from the sale of disposal of solid waste. This fund had a year end balance of \$1.9 million which can be used for any lawful purpose with the approval of Town meeting. The third stabilization fund is referred to as the Town's fiscal stability stabilization fund which was created after a 2005 tax override to stabilize future Town budgets. The Town's fiscal stability stabilization fund, which is used exclusively for the general fund, had a year end balance of \$1.6 million. Of this amount, \$1.6 million was voted during fiscal year 2010 to balance the Town's fiscal year 2011 operating budget. Please refer to Notes 8, 9 and 10 for additional information on the Town's stabilization funds.

The state fiscal stabilization major fund is used to account for the Town's use of the federal state fiscal stabilization program which was awarded to Governors to help stabilize State and local budgets in order to minimize and avoid reductions in education and other essential services. During fiscal year 2010, the Town received and spent \$939,000 of state fiscal stabilization funds.

The Town's capital borrowing major fund had an ending fund balance of \$4.1 million, a decrease of \$705,000 from the prior year. During fiscal year 2010, the Town recognized \$2.6 million in bond proceeds in this major fund which represents long-term borrowing used to finance various capital projects from the Town's capital improvement plan. Current expenditures in this fund totaled \$3.2 million.

Of the remainder of the change in fund balance, a \$457,000 increase relates to activities in other non-major governmental funds, which recognized \$987,000 in transfers in, \$383,000 in transfers out, \$18.3 million in revenues, \$18.5 million in expenditures, and \$104,001 in bond premiums. The majority of the increase, approximately \$572,000, is in the Town's nonmajor special revenue funds, which includes nonmajor grants, gifts and revolving funds.

General Fund Budgetary Highlights

Changes between the original and final budget were primarily comprised of reserve fund transfers and reclassifications from appropriations for collective bargaining. Both the reserve fund and collective bargaining appropriations are initially budgeted under general government. The budgets are adjusted as transfers are approved and as bargaining agreements are settled. By category, all actual revenues came in over budget with the exception of investment income.

The Town experienced appropriation deficits for state and county assessments, snow and ice removal, and court judgments, which are allowed, and may be accounted for in the subsequent year.

The Town also experienced a \$1.5 million school department appropriation deficit that is not legal and will result in both a reduction in available funds and forced budget reductions in the next fiscal year.

Other Post Employment Benefits (OPEB)

In 2006 the Arlington Town Meeting formed the Other Post Employment Benefits Committee. The committee's charge is to make recommendations on the potential funding mechanisms for the post employment medical benefits unfunded liability as required in Statement No. 45 of the Governmental Accounting Standards Board, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45).

The Town has been partially funding this liability in an internally created healthcare trust fund established by Chapter 12 of the Acts of 1998. During fiscal year 2009, in compliance with GASB 45, the Town transferred the balance of the healthcare trust fund, as well as all new appropriations for the same purpose, into a newly created Other Postemployment Benefits (OPEB) Trust Fund, as established by Chapter 161 of the Acts of 2005, which is under the supervision and management of the Town's contributory retirement board. The Town Treasurer is the custodian of the OPEB Trust Fund.

The Town began capturing revenues to fund the OPEB liability in 1997. At that time, the Town established a policy of appropriating the difference in the non-contributory pension appropriation and \$500,000. The Town has subsequently appropriated Medicare Part D reimbursements, as well as certain increases in the share of retiree HMO contributions to be transferred to this fund.

Fiscal year 2010 is the second year the Town is recognizing their OPEB liability. An actuarial study determined that Arlington's total Actuarial Accrued Liability as of January 1, 2009, at a 4.50% partially funded discount rate, totaled \$167 million. As of June 30, 2010, the Town has recognized a liability for other postemployment liabilities based on its Annual Required Contribution (ARC) in the amount of \$10.3 million. The ARC amounted to \$14.1 million and the Town contributed \$7.7 million through a combination of benefit payments and pre-fundings to the OPEB Trust Fund in the amounts of \$7.2 and \$500,000, respectively. The assets set aside in trust for future benefits amounted to \$3.2 million at fiscal year end.

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

Capital Asset and Debt Administration

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

The goal of the Capital Planning Program is to provide a means of planning for the maintenance and/or improvement of the capital assets and infrastructure of the Town of Arlington. To that end, the policy is that approximately 5% of the projected revenue of the Town is dedicated to capital expenditures including prior and future debt issuances. Generally this allows for an annual cash expenditure of \$600,000 and a new borrowing of \$1 million. The Town's outstanding long-term debt related to the general government, as of June 30, 2010, was \$50.3 million 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 \$5.9 million in fiscal year 2010 from the MWRA assessment to the property taxes. During fiscal year 2010, the Town issued an additional \$131,000 in MWRA sewer bonds and \$1.1 million in MWRA water bonds.

The Town has voted to cap the amount of future MWRA debt that will be shifted to the tax rate at \$5.6 million and correspondently increased water rates.

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 of 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 million to purchase and maintain the old Symmes Hospital property until Town Meeting could vote how to utilize the property in the best interest of the Town. The ARB acquired the Site in April 2002. During fiscal year 2004, the Arlington Redevelopment Board issued requests for proposals, and in February, 2004 chose E.A. Fish Associates to purchase and redevelop the property. The terms of the sale have been amended several times, most significantly as a result of a settlement the developer made with residents who appealed the developer's special permit to construct the residential portion of the project. The property sale was postponed and eventually closed in June of 2009. Town Meeting voted to devote all funds, including tax receipts, to repaying the debt on the project. Net expenditures totaled \$12.2 million at the time of closing on the property sale. The site is scheduled to be redeveloped to accommodate up to 200 residential units and a medical or other use office building with more than half the land area remaining in open space all according to the urban renewal plan adopted by Town Meeting. Please refer to note 14 for further information on this project.

The Town of Arlington is in the process of renovating/replacing its middle school as well as all of its 7 elementary schools. To date six schools have been completed, and two are in the design stage. Funding for the schools is from debt exclusion and is predicated on a 63% reimbursement from the State's School Building Assistance

program which is administered by the Massachusetts School Building Authority (MSBA). Five of the schools are currently receiving the state reimbursement.

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.

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Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<i>Primary Government</i>		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 35,555,852	\$ 5,781,701	\$ 41,337,553
Investments.....	7,013,820	-	7,013,820
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	8,751	-	8,751
Real estate tax deferrals.....	72,694	-	72,694
Tax liens.....	781,121	-	781,121
Motor vehicle excise taxes.....	215,662	-	215,662
User fees.....	-	5,296,580	5,296,580
Departmental and other.....	412,734	-	412,734
Intergovernmental.....	6,692,669	-	6,692,669
Loans.....	194,884	-	194,884
Tax foreclosures.....	396,784	-	396,784
Deferred loss on refunding.....	79,430	-	79,430
Unamortized bond issue cost.....	19,696	-	19,696
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	290,781	-	290,781
Intergovernmental.....	16,586,441	-	16,586,441
Loans.....	779,538	-	779,538
Deferred loss on refunding.....	354,432	-	354,432
Unamortized bond issue cost.....	93,425	-	93,425
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	12,690,076	1,180,154	13,870,230
Depreciable.....	102,568,072	14,431,205	116,999,277
TOTAL ASSETS.....	184,806,862	26,689,640	211,496,502
LIABILITIES			
CURRENT:			
Warrants payable.....	991,949	463,210	1,455,159
Accrued payroll.....	3,501,258	-	3,501,258
Health claims payable.....	1,733,782	-	1,733,782
Accrued interest.....	754,119	-	754,119
Payroll withholdings.....	580,620	-	580,620
Abandoned property.....	42,464	-	42,464
Other liabilities.....	732,254	-	732,254
Customer deposits payable.....	4,425	-	4,425
Compensated absences.....	3,595,000	67,000	3,662,000
Workers' compensation.....	131,000	-	131,000
Unamortized premium on bonds payable.....	35,229	-	35,229
Bonds and notes payable.....	12,684,000	1,063,945	13,747,945
NONCURRENT:			
Compensated absences.....	1,895,000	47,000	1,942,000
Workers' compensation.....	356,000	-	356,000
Other postemployment benefits.....	10,031,015	294,124	10,325,139
Unamortized premium on bonds payable.....	169,433	-	169,433
Bonds and notes payable.....	42,845,000	5,865,014	48,710,014
TOTAL LIABILITIES.....	80,082,548	7,800,293	87,882,841
NET ASSETS			
Invested in capital assets, net of related debt.....	87,746,066	10,253,410	97,999,476
Restricted for:			
Loans.....	974,422	-	974,422
Permanent funds:			
Expendable.....	3,492,830	-	3,492,830
Nonexpendable.....	3,323,621	-	3,323,621
Gifts and grants.....	1,035,530	-	1,035,530
Unrestricted.....	8,151,845	8,635,937	16,787,782
TOTAL NET ASSETS.....	\$ 104,724,314	\$ 18,889,347	\$ 123,613,661

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 9,914,031	\$ 2,054,603	\$ 651,663	\$ -	\$ (7,207,765)
Public safety.....	23,893,787	3,184,903	103,532	-	(20,605,352)
Education.....	79,863,607	3,184,888	24,789,033	-	(51,889,686)
Public works.....	12,913,532	742,682	563,345	439,717	(11,167,788)
Community development.....	4,545,071	370,539	4,064,702	-	(109,830)
Human services.....	1,617,701	174,472	627,293	-	(815,936)
Library.....	3,357,258	48,476	150,423	-	(3,158,359)
Culture and recreation.....	338,759	405,774	66,365	-	133,380
Claims and judgments.....	25,000	-	-	-	(25,000)
Interest.....	1,792,028	-	576,519	-	(1,215,509)
Total Governmental Activities.....	138,260,774	10,166,337	31,592,875	439,717	(96,061,845)
<i>Business-Type Activities:</i>					
Water/Sewer.....	15,053,016	10,277,465	-	-	(4,775,551)
Youth Services.....	416,415	26,549	46,600	-	(343,266)
Council on Aging.....	90,648	40,716	64,796	36,871	51,735
Veterans' Rink.....	491,960	518,884	-	-	26,924
Recreation.....	550,909	558,475	-	-	7,566
Total Business-Type Activities.....	16,602,948	11,422,089	111,396	36,871	(5,032,592)
Total Primary Government.....	\$ 154,863,722	\$ 21,588,426	\$ 31,704,271	\$ 476,588	\$ (101,094,437)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (96,061,845)	\$ (5,032,592)	\$ (101,094,437)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	82,619,163	-	82,619,163
Tax liens.....	365,156	-	365,156
Motor vehicle excise taxes.....	3,757,148	-	3,757,148
Hotel/motel tax.....	165,114	-	165,114
Penalties and interest on taxes.....	267,528	-	267,528
Grants and contributions not restricted to specific programs.....	7,202,804	-	7,202,804
Unrestricted investment income.....	273,786	40,215	314,001
Miscellaneous.....	88,067	-	88,067
<i>Transfers, net</i>	(5,874,212)	5,874,212	-
Total general revenues and transfers.....	88,864,554	5,914,427	94,778,981
Change in net assets.....	(7,197,291)	881,835	(6,315,456)
<i>Net Assets:</i>			
Beginning of year.....	111,921,605	18,007,512	129,929,117
End of year.....	\$ 104,724,314	\$ 18,889,347	\$ 123,613,661

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2010

ASSETS	General	Town Stabilization Fund	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 13,279,607	\$ 6,015,814	\$ 9,683,122	\$ 6,577,309	\$ 35,555,852
Investments.....	-	-	-	7,013,820	7,013,820
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	8,751	-	-	-	8,751
Real estate tax deferrals.....	363,475	-	-	-	363,475
Tax liens.....	781,121	-	-	-	781,121
Motor vehicle excise taxes.....	215,662	-	-	-	215,662
Departmental and other.....	412,734	-	-	-	412,734
Intergovernmental.....	18,602,003	-	-	4,677,107	23,279,110
Loans.....	-	-	-	974,422	974,422
Tax foreclosures.....	396,784	-	-	-	396,784
TOTAL ASSETS.....	\$ 34,060,137	\$ 6,015,814	\$ 9,683,122	\$ 19,242,658	\$ 69,001,731
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 501,459	\$ -	\$ 268,207	\$ 222,283	\$ 991,949
Accrued payroll.....	3,501,258	-	-	-	3,501,258
Health claims payable.....	1,733,782	-	-	-	1,733,782
Accrued interest on short-term debt.....	-	-	86,405	-	86,405
Liabilities due depositors.....	4,425	-	-	-	4,425
Payroll withholdings.....	580,620	-	-	-	580,620
Abandoned property.....	42,464	-	-	-	42,464
Other liabilities.....	732,254	-	-	-	732,254
Deferred revenues.....	20,648,590	-	-	5,651,529	26,300,119
Notes payable.....	-	-	5,185,000	-	5,185,000
TOTAL LIABILITIES.....	27,744,852	-	5,539,612	5,873,812	39,158,276
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations.....	1,498,150	-	-	-	1,498,150
Debt service.....	309,154	-	-	-	309,154
Perpetual permanent funds.....	-	-	-	3,323,621	3,323,621
Unreserved:					
Designated for municipal insurance.....	2,754,012	-	-	-	2,754,012
Designated for subsequent year's expenditures.....	582,051	1,580,000	-	-	2,162,051
Undesignated, reported in:					
General fund.....	1,171,918	-	-	-	1,171,918
Special revenue funds.....	-	4,435,814	-	6,058,390	10,494,204
Capital projects funds.....	-	-	4,143,510	494,005	4,637,515
Permanent funds.....	-	-	-	3,492,830	3,492,830
TOTAL FUND BALANCES.....	6,315,285	6,015,814	4,143,510	13,368,846	29,843,455
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 34,060,137	\$ 6,015,814	\$ 9,683,122	\$ 19,242,658	\$ 69,001,731

See notes to basic financial statements.

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

JUNE 30, 2010

Total governmental fund balances.....		\$ 29,843,455
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		115,258,148
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		26,300,119
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(667,714)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(50,344,000)	
Unamortized bond issue costs.....	113,121	
Unamortized premium on bonds payable.....	(204,662)	
Workers compensation.....	(487,000)	
Compensated absences.....	(5,490,000)	
Other postemployment benefits.....	<u>(10,031,015)</u>	
Net effect of reporting long-term liabilities.....		(66,443,556)
In the statement of activities, deferred losses are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued.....		<u>433,862</u>
Net assets of governmental activities.....		<u>\$ 104,724,314</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

	General	Town Stabilization Fund	State Fiscal Stabilization Fund	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ 82,576,221	\$ -	\$ -	\$ -	\$ -	82,576,221
Tax liens.....	375,618	-	-	-	-	375,618
Motor vehicle excise taxes.....	3,757,148	-	-	-	-	3,757,148
Hotel/motel tax.....	165,114	-	-	-	-	165,114
Fees and rentals.....	-	-	-	-	66,050	66,050
Intergovernmental.....	27,525,231	-	938,832	-	9,954,045	38,418,108
Departmental and other.....	4,245,973	-	-	-	7,808,671	12,054,644
Contributions.....	-	235,882	-	-	723,033	958,915
Investment income.....	484,802	46,792	-	3,169	(260,977)	273,786
TOTAL REVENUES.....	119,130,107	282,674	938,832	3,169	18,290,822	138,645,604
EXPENDITURES:						
Current:						
General government.....	3,631,160	8,874	-	97,792	952,126	4,689,952
Public safety.....	13,039,593	-	-	1,497,048	1,402,064	15,938,705
Education.....	40,984,304	-	938,832	475,164	9,438,560	51,836,860
Public works.....	8,896,205	-	-	920,591	1,968,912	11,785,708
Community development.....	670,923	-	-	46,943	3,633,972	4,351,838
Human services.....	788,281	-	-	58,098	518,020	1,364,399
Library.....	1,889,720	-	-	63,723	224,211	2,177,654
Culture and recreation.....	14,531	-	-	48,536	282,692	345,759
Pension benefits.....	17,841,371	-	-	-	-	17,841,371
Property and liability insurance.....	264,569	-	-	-	-	264,569
Employee benefits.....	16,892,684	-	-	-	-	16,892,684
Claims and judgments.....	25,000	-	-	-	-	25,000
State and county charges.....	2,671,798	-	-	-	-	2,671,798
Debt service:						
Principal.....	5,810,000	-	-	-	-	5,810,000
Interest.....	1,893,250	-	-	-	120,845	2,014,095
TOTAL EXPENDITURES.....	115,313,389	8,874	938,832	3,207,895	18,541,402	138,010,392
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	3,816,718	273,800	-	(3,204,726)	(250,580)	635,212
OTHER FINANCING SOURCES (USES):						
Proceeds from bonds and notes.....	-	-	-	2,559,000	-	2,559,000
Premium from issuance of bonds.....	225,869	-	-	-	104,001	329,870
Transfers in.....	3,792,044	-	-	60,500	986,581	4,839,125
Transfers out.....	(6,787,628)	(3,422,626)	-	(119,694)	(383,389)	(10,713,337)
TOTAL OTHER FINANCING SOURCES (USES)...	(2,769,715)	(3,422,626)	-	2,499,806	707,193	(2,985,342)
NET CHANGE IN FUND BALANCES.....	1,047,003	(3,148,826)	-	(704,920)	456,613	(2,350,130)
FUND BALANCES AT BEGINNING OF YEAR	5,268,282	9,164,640	-	4,848,430	12,912,233	32,193,585
FUND BALANCES AT END OF YEAR.....	\$ 6,315,285	\$ 6,015,814	\$ -	\$ 4,143,510	\$ 13,368,846	\$ 29,843,455

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, 2010

Net change in fund balances - total governmental funds.....		\$ (2,350,130)
<p>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.</p>		
Capital outlay.....	4,794,301	
Depreciation expense.....	<u>(4,748,724)</u>	
Net effect of reporting capital assets.....		45,577
<p>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.....</p>		
		(1,707,909)
<p>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.</p>		
Proceeds from bonds and notes.....	(2,559,000)	
Premium from issuance of bonds, net of issue costs.....	(329,870)	
Debt service principal payments.....	<u>5,810,000</u>	
Net effect of reporting long-term debt.....		2,921,130
Net change in accrued interest on long-term debt.....	(35,880)	
Amortization of issuance costs.....	(22,137)	
Amortization of bond premiums.....	369,455	
Amortization of deferred charge on refunding.....	<u>(89,371)</u>	
Net effect of reporting other debt related activity.....		222,067
<p>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.</p>		
Net change in compensated absences accrual.....	(28,000)	
Net change in other postemployment benefits accrual.....	(6,340,026)	
Net change in worker's compensation accrual.....	<u>40,000</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>(6,328,026)</u>
Change in net assets of governmental activities.....		\$ <u><u>(7,197,291)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer Enterprise</u>	<u>Youth Services Enterprise</u>	<u>Council On Aging Enterprise</u>
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 5,221,252	\$ 51,706	\$ 52,626
Receivables, net of allowance for uncollectibles:			
User fees.....	<u>5,296,580</u>	<u>-</u>	<u>-</u>
Total current assets.....	<u>10,517,832</u>	<u>51,706</u>	<u>52,626</u>
NONCURRENT:			
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	424,135	-	-
Depreciable.....	<u>13,888,134</u>	<u>-</u>	<u>54,618</u>
Total noncurrent assets.....	<u>14,312,269</u>	<u>-</u>	<u>54,618</u>
TOTAL ASSETS.....	<u>24,830,101</u>	<u>51,706</u>	<u>107,244</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	436,259	7,630	-
Compensated absences.....	67,000	-	-
Bonds and notes payable.....	<u>963,945</u>	<u>-</u>	<u>-</u>
Total current liabilities.....	<u>1,467,204</u>	<u>7,630</u>	<u>-</u>
NONCURRENT:			
Compensated absences.....	47,000	-	-
Other postemployment benefits obligation.....	119,898	63,441	7,430
Bonds and notes payable.....	<u>4,965,014</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities.....	<u>5,131,912</u>	<u>63,441</u>	<u>7,430</u>
TOTAL LIABILITIES.....	<u>6,599,116</u>	<u>71,071</u>	<u>7,430</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	9,954,320	-	54,618
Unrestricted.....	<u>8,276,665</u>	<u>(19,365)</u>	<u>45,196</u>
TOTAL NET ASSETS.....	<u>\$ 18,230,985</u>	<u>\$ (19,365)</u>	<u>\$ 99,814</u>

See notes to basic financial statements.

	Veterans' Rink Enterprise	Recreation Enterprise	Total
\$	357,131	\$ 98,986	\$ 5,781,701
	-	-	5,296,580
	<u>357,131</u>	<u>98,986</u>	<u>11,078,281</u>
	731,239	24,780	1,180,154
	<u>145,449</u>	<u>343,004</u>	<u>14,431,205</u>
	<u>876,688</u>	<u>367,784</u>	<u>15,611,359</u>
	<u>1,233,819</u>	<u>466,770</u>	<u>26,689,640</u>
	4,442	14,879	463,210
	-	-	67,000
	<u>100,000</u>	-	<u>1,063,945</u>
	<u>104,442</u>	<u>14,879</u>	<u>1,594,155</u>
	-	-	47,000
	39,130	64,225	294,124
	<u>900,000</u>	-	<u>5,865,014</u>
	<u>939,130</u>	<u>64,225</u>	<u>6,206,138</u>
	<u>1,043,572</u>	<u>79,104</u>	<u>7,800,293</u>
	(123,312)	367,784	10,253,410
	<u>313,559</u>	<u>19,882</u>	<u>8,635,937</u>
\$	<u><u>190,247</u></u>	<u><u>387,666</u></u>	<u><u>18,889,347</u></u>

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

FISCAL YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
OPERATING REVENUES:			
Charges for services	\$ 10,277,465	\$ 26,549	\$ 42,662
OPERATING EXPENSES:			
Salaries and wages.....	1,826,909	314,126	68,600
Cost of services and administration	1,005,184	17,110	15,109
MWRA Assessment.....	10,625,563	-	-
Depreciation.....	333,229	-	4,009
Employee benefits	1,262,131	85,179	2,930
TOTAL OPERATING EXPENSES	15,053,016	416,415	90,648
OPERATING INCOME (LOSS).....	(4,775,551)	(389,866)	(47,986)
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	40,215	-	-
Intergovernmental.....	-	46,600	62,850
TOTAL NONOPERATING REVENUES, (EXPENSES), NET.....	40,215	46,600	62,850
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS.....	(4,735,336)	(343,266)	14,864
CAPITAL CONTRIBUTIONS.....	-	-	36,871
TRANSFERS:			
Transfers in.....	5,590,528	321,100	-
Transfers out.....	-	-	-
TOTAL OPERATING TRANSFERS.....	5,590,528	321,100	-
CHANGE IN NET ASSETS.....	855,192	(22,166)	51,735
NET ASSETS AT BEGINNING OF YEAR.....	17,375,793	2,801	48,079
NET ASSETS AT END OF YEAR.....	\$ 18,230,985	\$ (19,365)	\$ 99,814

See notes to basic financial statements.

Veterans' Rink Enterprise	Recreation Enterprise	Total
\$ 518,884	\$ 558,475	\$ 11,424,035
222,237	260,957	2,692,829
195,648	192,702	1,425,753
-	-	10,625,563
9,425	18,213	364,876
<u>64,650</u>	<u>79,037</u>	<u>1,493,927</u>
<u>491,960</u>	<u>550,909</u>	<u>16,602,948</u>
<u>26,924</u>	<u>7,566</u>	<u>(5,178,913)</u>
-	-	40,215
<u>-</u>	<u>-</u>	<u>109,450</u>
<u>-</u>	<u>-</u>	<u>149,665</u>
<u>26,924</u>	<u>7,566</u>	<u>(5,029,248)</u>
<u>-</u>	<u>-</u>	<u>36,871</u>
-	2,584	5,914,212
<u>(40,000)</u>	<u>-</u>	<u>(40,000)</u>
<u>(40,000)</u>	<u>2,584</u>	<u>5,874,212</u>
(13,076)	10,150	881,835
<u>203,323</u>	<u>377,516</u>	<u>18,007,512</u>
<u>\$ 190,247</u>	<u>\$ 387,666</u>	<u>\$ 18,889,347</u>

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Receipts from customers and users.....	\$ 9,697,197	\$ 26,549	\$ 42,662
Payments to vendors.....	(12,696,295)	(78,089)	(15,109)
Payments to employees.....	(1,825,949)	(321,627)	(70,316)
NET CASH FROM OPERATING ACTIVITIES.....	(4,825,047)	(373,167)	(42,763)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Transfers in.....	5,590,528	321,100	-
Transfers out.....	-	-	-
Intergovernmental subsidy.....	-	46,600	62,850
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	5,590,528	367,700	62,850
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Proceeds from the issuance of bonds and notes.....	1,231,120	-	-
Capital contributions.....	-	-	36,871
Acquisition and construction of capital assets.....	(2,794,166)	-	(49,890)
Principal payments on bonds and notes.....	(869,598)	-	-
Interest expense.....	(30,479)	-	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(2,463,123)	-	(13,019)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Investment income.....	40,215	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(1,657,427)	(5,467)	7,068
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	6,878,679	57,173	45,558
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 5,221,252	\$ 51,706	\$ 52,626
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>			
<u>FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ (4,775,551)	\$ (389,866)	\$ (47,986)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	333,229	-	4,009
Changes in assets and liabilities:			
User fees.....	(580,268)	-	-
Warrants payable.....	224,496	7,630	-
Accrued payroll.....	(12,040)	(7,501)	(1,716)
Accrued compensated absences.....	13,000	-	-
Other postemployment benefits.....	(27,913)	16,570	2,930
Total adjustments.....	(49,496)	16,699	5,223
NET CASH FROM OPERATING ACTIVITIES.....	\$ (4,825,047)	\$ (373,167)	\$ (42,763)

See notes to basic financial statements.

	Veterans' Rink Enterprise	Recreation Enterprise	Total
\$	518,884	\$ 558,475	\$ 10,843,767
	(241,206)	(244,923)	(13,275,622)
	<u>(226,659)</u>	<u>(269,024)</u>	<u>(2,713,575)</u>
	<u>51,019</u>	<u>44,528</u>	<u>(5,145,430)</u>
	-	2,584	5,914,212
	(40,000)	-	(40,000)
	<u>-</u>	<u>-</u>	<u>109,450</u>
	<u>(40,000)</u>	<u>2,584</u>	<u>5,983,662</u>
	1,000,000	-	2,231,120
	-	-	36,871
	(731,239)	(24,780)	(3,600,075)
	-	-	(869,598)
	<u>-</u>	<u>-</u>	<u>(30,479)</u>
	<u>268,761</u>	<u>(24,780)</u>	<u>(2,232,161)</u>
	<u>-</u>	<u>-</u>	<u>40,215</u>
	279,780	22,332	(1,353,714)
	<u>77,351</u>	<u>76,654</u>	<u>7,135,415</u>
\$	<u><u>357,131</u></u>	<u><u>98,986</u></u>	<u><u>5,781,701</u></u>
\$	<u>26,924</u>	<u>7,566</u>	<u>(5,178,913)</u>
	9,425	18,213	364,876
	-	-	(580,268)
	4,442	14,879	251,447
	(4,422)	(8,067)	(33,746)
	-	-	13,000
	<u>14,650</u>	<u>11,937</u>	<u>18,174</u>
	<u>24,095</u>	<u>36,962</u>	<u>33,483</u>
\$	<u><u>51,019</u></u>	<u><u>44,528</u></u>	<u><u>(5,145,430)</u></u>

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Pension Trust Fund (as of December 31, 2009)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents.....	\$ 7,114,385	\$ 3,218,507	\$ 142,298	\$ 10,526
Investments.....	98,168,421	589	4,236,695	-
Interest and dividends.....	1,136	-	-	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	1,200	-	-	-
TOTAL ASSETS	<u>105,285,142</u>	<u>3,219,096</u>	<u>4,378,993</u>	<u>10,526</u>
LIABILITIES				
Warrants payable.....	99,999	-	-	538
Liabilities due depositors.....	-	-	-	9,988
TOTAL LIABILITIES	<u>99,999</u>	<u>-</u>	<u>-</u>	<u>10,526</u>
NET ASSETS				
Held in trust for pension and OPEB benefits and other purposes.....	\$ <u>105,185,143</u>	\$ <u>3,219,096</u>	\$ <u>4,378,993</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2010

	Pension Trust Fund (as of December 31, 2009)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 7,635,490	\$ 498,313	\$ -
Employee.....	2,773,567	-	-
Private donations.....	-	-	607,656
Total contributions.....	<u>10,409,057</u>	<u>498,313</u>	<u>607,656</u>
Net investment income (loss):			
Net change in fair value of investments.....	13,427,649	118,685	(10,404)
Investment income.....	<u>61,019</u>	<u>10,726</u>	<u>87,523</u>
Total investment income (loss).....	13,488,668	129,411	77,119
Less: investment expense.....	<u>(561,353)</u>	<u>-</u>	<u>-</u>
Net investment income (loss).....	<u>12,927,315</u>	<u>129,411</u>	<u>77,119</u>
Intergovernmental.....	<u>527,600</u>	<u>-</u>	<u>-</u>
Transfers from other systems.....	<u>362,721</u>	<u>-</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>24,226,693</u>	<u>627,724</u>	<u>684,775</u>
DEDUCTIONS:			
Administration.....	239,919	3,399	-
Transfers to other systems.....	495,936	-	-
Retirement benefits and refunds.....	14,827,034	-	-
Human services.....	-	-	43,733
Educational scholarships.....	<u>-</u>	<u>-</u>	<u>535,710</u>
TOTAL DEDUCTIONS.....	<u>15,562,889</u>	<u>3,399</u>	<u>579,443</u>
CHANGE IN NET ASSETS.....	8,663,804	624,325	105,332
NET ASSETS AT BEGINNING OF YEAR.....	<u>96,521,339</u>	<u>2,594,771</u>	<u>4,273,661</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 105,185,143</u>	<u>\$ 3,219,096</u>	<u>\$ 4,378,993</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 7th Massachusetts Congressional District, 4th Middlesex State Senatorial District, and the 25th and 26th Middlesex State Representative Districts.

For financial reporting purposes, the Town has included all funds, organizations, 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, Massachusetts 02476-4701.

Joint Venture – The Town has entered into a joint venture for the Minuteman Regional Vocational Technical High School along with other municipalities to pool resources and share the costs, risk and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified recipients. The

Town has no equity interest in this joint venture. For fiscal year 2010, the Town's annual assessment totaled \$3,073,694. Complete financial statements for the Minuteman Regional Vocational Technical High School can be obtained by contacting their administrative offices at 758 Marrett Road, Lexington, MA 02421.

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 those 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 *Town stabilization fund* is used to account for the Town's accumulation of resources in the stabilization, tip fee stabilization, and fiscal stability stabilization funds to be used with the approval of Town meeting.

The *state fiscal stabilization fund* is used to account for the Town's use of the federally funded state fiscal stabilization program which was awarded to Governors to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services.

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

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

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

The *recreation enterprise 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 *other postemployment benefit trust fund* is used to accumulate resources to provide funding for future other postemployment benefits (OPEB) liabilities.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

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 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. 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. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period.

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.....	45-60
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 reported as "invested in capital assets, net of related debt" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state's school building program is not considered to be capital related debt.

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.

"Gifts and grants" 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.

“Debt service” represents amounts accumulated for future payment of long-term debt service costs.

“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 2011 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. Fund Deficits

Several individual fund deficits exist at June 30, 2010, 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 2011.

P. 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.

Q. Total Column*Government-Wide Financial Statements*

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". 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.

The Pension System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which

was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Funds held in the Other Postemployment Benefit (OPEB) Trust Fund are held under the supervision and management of the Town’s Contributory Retirement Board. The Town Treasurer is the custodian of the OPEB Trust Fund which is included with the Towns investments in the following disclosures.

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 \$16,750,458 and the bank balance totaled \$20,308,767. Of the bank balance, \$542,973 was covered by Federal Depository Insurance, \$19,263,994 was insured under the FDIC Transaction Account Guarantee Program and \$501,800 was fully collateralized.

At December 31, 2009, carrying amount of deposits for the Pension System totaled \$483,149 and the bank balance totaled \$616,668. Of the bank balance, \$616,668 was covered by the Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

Investments

As of June 30, 2010, the Town of Arlington had the following investments:

Investment Type	Fair Value	Maturity			
		Under 1 Year	1-5 Years	6-10 Years	Over 10 Years
Debt Securities:					
Corporate Bonds.....	\$ 4,685,617	\$ 206,146	\$ 2,035,323	\$ 2,270,957	\$ 173,191
Other Investments:					
Equity Securities.....	6,565,487				
Money Market Mutual Funds.....	143,936				
MMDT.....	27,814,490				
Total Investments.....	\$ 39,209,530				

As of December 31, 2009, the Pension System had the following investments:

Other Investments:	Fair Value
PRIT.....	\$ 94,235,336
Money Market Mutual Funds.....	6,631,236
Equity Mutual Funds.....	3,933,085
Total Investments.....	\$ 104,799,657

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 8.58 years.

Custodial Credit Risk – Investments

The Town’s policy related to custodial credit risk is to apply the guidelines established by Massachusetts General Law and to invest in institutions which are financially strong. As of June 30, 2010, the Town’s investments in MMDT totaled \$27,814,490 are not subject to custodial credit risk exposure because they are not evidenced by securities that exist in physical or book-entry form. The Town has custodial credit risk exposure related to the \$6,565,487 in equity securities because these securities are uninsured, unregistered and held by the counterparty.

The Pension System does not have an investment policy for custodial credit risk. At December 31, 2009, the System’s investments in PRIT and open end mutual funds totaling \$104,799,657 are not subject to custodial credit risk exposure because they are not evidenced by securities that exist in physical or book-entry form.

Interest Rate Risk

To manage its exposure to fair value losses arising from increasing interest rates, the Town’s investment policy limits the investment of short-term funds to maturities of nine months or less and any short-term investment with a term greater than three months is limited to one million dollars.

Longer-term funds such as perpetual trust or stabilization funds are not restricted by this policy.

The Town maintains separate investment policies for trust funds, stabilization funds, and for all other Town funds. The Town’s investment policies are reviewed annually.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer or backer. The Town’s policy related to Credit Risk consists of tracking the credit worthiness of specific financial institutions at least semiannually. At June 30, 2010 the Town’s investments were rated as follows:

<u>Quality Ratings</u>	<u>Corporate Bonds</u>
AAA.....	\$ 1,437,634
AA+.....	90,703
AA.....	334,667
AA-.....	471,270
A+.....	455,925
A.....	742,421
A-.....	496,296
BBB+.....	328,809
BBB.....	103,291
BBB-.....	224,601
	<hr/>
Fair Value....	\$ <u><u>4,685,617</u></u>

The Pension 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.

The Town places no limit on the amount the government may invest in any one issuer.

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 Pension 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 Equivalent.....	0%	0%	5%

NOTE 3 – RECEIVABLES

At June 30, 2010, 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.....	\$ 8,751	\$ -	\$ 8,751
Real estate tax deferrals.....	363,475	-	363,475
Tax liens.....	781,121	-	781,121
Motor vehicle excise taxes.....	757,302	(541,640)	215,662
Departmental and other.....	413,826	(1,092)	412,734
Intergovernmental.....	23,279,110	-	23,279,110
Loans.....	974,422	-	974,422
Total.....	<u>\$ 26,578,007</u>	<u>\$ (542,732)</u>	<u>\$ 26,035,275</u>

At June 30, 2010, receivables for the proprietary funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer fees.....	<u>\$ 5,296,580</u>	<u>\$ -</u>	<u>\$ 5,296,580</u>

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 Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 8,751	\$ -	\$ 8,751
Real estate tax deferrals.....	363,475	-	363,475
Tax liens.....	781,121	-	781,121
Motor vehicle excise taxes.....	215,662	-	215,662
Departmental and other.....	280,794	-	280,794
State school construction funds.....	18,602,003	-	18,602,003
Tax foreclosures.....	396,784	-	396,784
Intergovernmental.....	-	4,677,107	4,677,107
Loans.....	-	974,422	974,422
Total.....	<u>\$ 20,648,590</u>	<u>\$ 5,651,529</u>	<u>\$ 26,300,119</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,525,593	\$ -	\$ -	\$ 10,525,593
Construction in progress.....	899,272	1,331,931	(66,720)	2,164,483
Total capital assets not being depreciated.....	<u>11,424,865</u>	<u>1,331,931</u>	<u>(66,720)</u>	<u>12,690,076</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	107,837,904	-	-	107,837,904
Improvements.....	8,856,112	914,073	-	9,770,185
Vehicles and equipment.....	9,200,725	1,315,549	(587,715)	9,928,559
Infrastructure.....	60,057,331	1,299,468	-	61,356,799
Total capital assets being depreciated.....	<u>185,952,072</u>	<u>3,529,090</u>	<u>(587,715)</u>	<u>188,893,447</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(38,222,248)	(2,036,401)	-	(40,258,649)
Improvements.....	(1,602,950)	(399,850)	-	(2,002,800)
Vehicles and equipment.....	(5,385,075)	(755,068)	587,715	(5,552,428)
Infrastructure.....	(36,954,093)	(1,557,405)	-	(38,511,498)
Total accumulated depreciation.....	<u>(82,164,366)</u>	<u>(4,748,724)</u>	<u>587,715</u>	<u>(86,325,375)</u>
Total capital assets being depreciated, net.....	<u>103,787,706</u>	<u>(1,219,634)</u>	<u>-</u>	<u>102,568,072</u>
Total governmental activities capital assets, net.....	<u>\$ 115,212,571</u>	<u>\$ 112,297</u>	<u>\$ (66,720)</u>	<u>\$ 115,258,148</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,954	\$ -	\$ -	\$ 2,954
Construction in progress.....	-	1,177,200	-	1,177,200
Total capital assets not being depreciated.....	<u>2,954</u>	<u>1,177,200</u>	<u>-</u>	<u>1,180,154</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	730,566	-	-	730,566
Improvements.....	429,672	-	-	429,672
Vehicles and equipment.....	1,297,482	753,865	(179,090)	1,872,257
Infrastructure.....	14,309,060	1,669,010	-	15,978,070
Total capital assets being depreciated.....	<u>16,766,780</u>	<u>2,422,875</u>	<u>(179,090)</u>	<u>19,010,565</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(156,441)	(14,912)	-	(171,353)
Improvements.....	(25,882)	(21,484)	-	(47,366)
Vehicles and equipment.....	(659,820)	(70,244)	179,090	(550,974)
Infrastructure.....	(3,551,431)	(258,236)	-	(3,809,667)
Total accumulated depreciation.....	<u>(4,393,574)</u>	<u>(364,876)</u>	<u>179,090</u>	<u>(4,579,360)</u>
Total capital assets being depreciated, net.....	<u>12,373,206</u>	<u>2,057,999</u>	<u>-</u>	<u>14,431,205</u>
Total business-type activities capital assets, net.....	<u>\$ 12,376,160</u>	<u>\$ 3,235,199</u>	<u>\$ -</u>	<u>\$ 15,611,359</u>

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

Governmental Activities:

General government.....	\$ 327,834
Public safety.....	406,990
Education.....	1,802,751
Public works.....	2,026,192
Community development.....	13,072
Human services.....	8,469
Library.....	<u>163,416</u>
Total depreciation expense - governmental activities.....	<u>\$ 4,748,724</u>

Business-Type Activities:

Water and sewer.....	\$ 333,229
Council on aging.....	4,009
Veterans' rink.....	9,425
Recreation.....	<u>18,213</u>
Total depreciation expense - business-type activities.....	<u>\$ 364,876</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2010, are summarized as follows:

Transfers In:	Transfers Out:					Total
	General Fund	Town Stabilization Fund	Capital Borrowing Fund	Nonmajor Governmental Funds	Rink Enterprise Fund	
General Fund.....\$	-	\$ 3,422,626	119,694	\$ 209,724	\$ 40,000	\$ 3,792,044
Capital Borrowing Fund.....	60,500	-	-	-	-	60,500
Nonmajor Governmental Funds.....	812,916	-	-	173,665	-	986,581
Water and Sewer Enterprise Fund.....	5,590,528	-	-	-	-	5,590,528
Youth Services Enterprise Fund.....	321,100	-	-	-	-	321,100
Recreation Enterprise Fund.....	2,584	-	-	-	-	2,584
Totals.....\$	<u>6,787,628</u>	<u>\$ 3,422,626</u>	<u>\$ 119,694</u>	<u>\$ 383,389</u>	<u>\$ 40,000</u>	<u>\$ 10,753,337</u>
	(1)	(2)	(3)	(4)	(5)	

- (1) Represents budgeted transfers from the general fund to the water and sewer, youth services, council on aging, veterans’ rink and recreation enterprise funds. Also represents a \$755,000 transfer to the 2010 capital tax levy and \$58,000 to miscellaneous nonmajor special revenue funds.
- (2) Represents budgeted transfers from the Town stabilization major fund to the general fund. Also represented are transfers between stabilization funds.
- (3) Represents budgeted transfers to the general fund from miscellaneous capital borrowing funds. Also represented are transfers between capital borrowing funds.
- (4) Represents budgeted transfers to the general fund from miscellaneous nonmajor funds. Also represented are transfers between miscellaneous nonmajor funds.
- (5) Represents a budget transfer from the veteran’s rink enterprise fund to the general fund.

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.

As of June 30, 2010, the Town had two BANs outstanding relating to the ongoing projects at the former Symmes Hospital site. The \$5,185,000, 1.5%, tax-exempt BAN, was permanently financed through the issuance of \$5,262,000 in general obligation bonds during fiscal year 2010. The bond proceeds were held at year end and were used to retire the BAN when it matured in August, 2010. This BAN is recorded as short-term debt as of June 30, 2010, and the bonds issued to retire the BAN are recorded as long-term debt. The \$1,310,000, 2%,

taxable BAN outstanding as of June 30, 2010 has been reported as long-term debt. This BAN has been retired in August, 2010, with the proceeds of a new BAN, for the same amount, at 1.25%, which is scheduled to mature on August 24, 2011.

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, 2010, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Municipal Purpose - 2000.....	5.10	\$ 900,000	\$ -	\$ 510,000	\$ 390,000
Municipal Purpose - 2002.....	3.75 - 4.88	9,065,000	-	950,000	8,115,000
Municipal Purpose - 2003.....	4.50	3,815,000	-	325,000	3,490,000
Municipal Purpose - 2004.....	2.50 - 3.75	2,120,000	-	465,000	1,655,000
GOB Refunding - 2005.....	3.00 - 5.00	2,995,000	-	325,000	2,670,000
GOB Refunding - 2005.....	3.00 - 5.00	2,240,000	-	300,000	1,940,000
Municipal Purpose - 2005.....	2.80 - 4.13	3,520,000	-	550,000	2,970,000
Municipal Purpose - 2006.....	4.00 - 5.50	5,200,000	-	450,000	4,750,000
Municipal Purpose - 2007.....	3.75 - 4.75	2,675,000	-	400,000	2,275,000
GOB Refunding - 2007.....	3.75 - 5.00	10,605,000	-	935,000	9,670,000
Equipment.....	3.75 - 4.50	90,000	-	10,000	80,000
Municipal Purpose - 2008.....	3.00 - 3.62	3,875,000	-	590,000	3,285,000
Symmes Property.....	2.00 - 4.00	5,185,000	77,000	-	5,262,000
Municipal Purpose - 2009.....	2.00 - 3.00	-	2,482,000	-	2,482,000
Total long-term bonds payable.....		52,285,000	2,559,000	5,810,000	49,034,000
Symmes Property long-term taxable BAN.....	2.00	1,310,000	-	-	1,310,000
Total governmental bonds and notes payable.....		\$ 53,595,000	\$ 2,559,000	\$ 5,810,000	\$ 50,344,000

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>
2011.....	\$ 7,499,000	\$ 1,910,930	\$ 9,409,930
2012.....	5,805,000	1,600,322	7,405,322
2013.....	5,570,000	1,328,930	6,898,930
2014.....	5,415,000	1,135,464	6,550,464
2015.....	4,970,000	950,657	5,920,657
2016.....	4,570,000	772,434	5,342,434
2017.....	4,505,000	596,641	5,101,641
2018.....	3,535,000	437,547	3,972,547
2019.....	2,315,000	320,729	2,635,729
2020.....	2,065,000	234,542	2,299,542
2021.....	1,860,000	152,949	2,012,949
2022.....	950,000	75,576	1,025,576
2023.....	415,000	46,877	461,877
2024.....	400,000	29,223	429,223
2025.....	235,000	15,422	250,422
2026.....	235,000	5,141	240,141
Totals.....	<u>\$ 50,344,000</u>	<u>\$ 9,613,381</u>	<u>\$ 59,957,381</u>

Bonds and Notes Payable Schedule – Water and Sewer Enterprise Fund

The Town is a member of the Massachusetts Water Resources Authority (MWRA) which offers its members interest free loans for various purposes. The majority of the Town’s Water and Sewer Enterprise Fund debt is issued through this program. The interest imputed on the remaining life of the 0% MWRA bonds totaled approximately \$370,000. However, the cost on a yearly basis is deemed immaterial. No adjustments have been made to recognize the imputed interest.

Details related to the outstanding indebtedness at June 30, 2010, and the debt service requirements are as follows:

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2010</u>
Municipal Purpose - 2006.....	4.00 - 5.50	\$ 1,600,000	\$ -	\$ 93,800	\$ 1,506,200
Water and Sewer Bonds - MWRA.....	-	<u>3,967,437</u>	<u>1,231,120</u>	<u>775,798</u>	<u>4,422,759</u>
Total water and sewer enterprise fund bonds and notes payable.....		<u>\$ 5,567,437</u>	<u>\$ 1,231,120</u>	<u>\$ 869,598</u>	<u>\$ 5,928,959</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$ 963,945	\$ 53,875	\$ 1,017,820
2012.....	931,649	45,625	977,274
2013.....	816,479	37,375	853,854
2014.....	745,562	29,125	774,687
2015.....	685,524	20,875	706,399
2016.....	589,300	12,625	601,925
2017.....	495,500	4,250	499,750
2018.....	295,500	-	295,500
2019.....	295,500	-	295,500
2020.....	110,000	-	110,000
Totals.....	<u>\$ 5,928,959</u>	<u>\$ 203,750</u>	<u>\$ 6,132,709</u>

Bonds and Notes Payable Schedule – Veteran’s Rink Enterprise Fund

Bonds and Notes Payable Schedule - Rink Enterprise Fund

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2010</u>
Rink Renovations.....	2.00 - 3.00	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000

Debt service requirements for the veteran’s rink enterprise fund bonds and notes payable in future fiscal years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$ 100,000	\$ 22,500	\$ 122,500
2012.....	100,000	20,500	120,500
2013.....	100,000	18,500	118,500
2014.....	100,000	16,500	116,500
2015.....	100,000	14,500	114,500
2016.....	100,000	12,375	112,375
2017.....	100,000	10,000	110,000
2018.....	100,000	7,375	107,375
2019.....	100,000	4,500	104,500
2020.....	100,000	1,500	101,500
Totals.....	<u>\$ 1,000,000</u>	<u>\$ 128,250</u>	<u>\$ 1,128,250</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 2010, \$2,531,085 of such assistance was received. Approximately \$20,953,000 will be received in future fiscal years. Of this amount, approximately \$2,351,000 represents reimbursement of long-term interest costs, and approximately \$18,602,000 represents reimbursement of approved construction costs. Accordingly, an \$18,602,000 intergovernmental receivable and corresponding deferred revenue have been reported in the 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 prior years, the Town has taken advantage of favorable interest rates by advance refunding certain general obligation bonds by placing the proceeds of 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. At June 30, 2010, \$2,710,000 of bonds outstanding from prior advance refundings 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, 2010, the Town had the following authorized and unissued debt:

Purpose	Amount
Symmes Property.....	\$ 1,298,000
School.....	177,372
Road Repairs.....	200,000
Sewer.....	913,880
Water.....	2,945,000
Fire Stations.....	14,645,000
Remodeling.....	420,384
Various Purposes.....	2,360,728
Computer.....	1,150
Police Station Remodeling.....	235,000
Safety Improvements.....	25,000
Total.....	\$ 23,221,514

Changes in long-term liabilities

During the fiscal year ended June 30, 2010, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Long-Term Bonds and Notes.....	\$ 53,595,000	\$ 2,559,000	\$ (5,810,000)	\$ 50,344,000	\$ 7,499,000
Other Postemployment Benefits.....	3,690,989	13,840,728	(7,500,702)	10,031,015	-
Workers' Compensation.....	527,000	326,886	(366,886)	487,000	131,000
Compensated Absences.....	5,462,000	3,598,000	(3,570,000)	5,490,000	3,595,000
Total governmental activities.....	<u>\$ 63,274,989</u>	<u>\$ 20,324,614</u>	<u>\$ (17,247,588)</u>	<u>\$ 66,352,015</u>	<u>\$ 11,225,000</u>
Business-Type Activities:					
Long-Term Bonds and Notes.....	\$ 5,567,437	\$ 2,231,120	\$ (869,598)	\$ 6,928,959	\$ 1,063,945
Other Postemployment Benefits.....	275,950	252,834	(234,660)	294,124	-
Compensated Absences.....	101,000	73,000	(60,000)	114,000	67,000
Total business-type activities.....	<u>\$ 5,944,387</u>	<u>\$ 2,556,954</u>	<u>\$ (1,164,258)</u>	<u>\$ 7,337,083</u>	<u>\$ 1,130,945</u>

NOTE 8 – STABILIZATION FUND

At June 30, 2010, the Town has \$2,546,031 in a stabilization fund, which is classified as a special revenue fund within the Town stabilization major governmental fund in the fund-based basic financial statements. The Town may use the stabilization fund for general and/or capital purposes upon Town Meeting approval.

NOTE 9 – TIP FEE STABLIZATION FUND

In accordance with Chapter 8 of the Acts of 1998 of the Commonwealth, the Town maintains a tip fee stabilization Fund to account for proceeds from the sale of recycled materials; the sale of excess tonnage capacity of the Town at the facility of Wheelabrator North Andover, Inc. (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 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 \$1,888,492 in the tip fee stabilization fund at June 30, 2010, which is recorded as a special revenue fund within the Town stabilization major governmental fund in the fund-based basic financial statements. The activity of the fund in fiscal year 2010 consists of the following:

Fund balance at June 30, 2009.....	\$ 2,559,441
Investment income.....	9,051
Transfer to the general fund.....	<u>(680,000)</u>
Fund balance at June 30, 2010.....	<u>\$ 1,888,492</u>

NOTE 10 – FISCAL STABILITY STABILIZATION FUND

In accordance with Chapter 40, Section 5B of the General Laws of the Commonwealth, the Town has created a fiscal stability stabilization fund to accumulate funds to be utilized for future municipal budget expenditures. As of June 30, 2010, the balance in this fund totaled \$1,581,291. On May 26, 2010, the Town voted to use \$1,580,000 from the fiscal stability stabilization fund to balance the fiscal year 2011 operating budget. This fund is classified as a special revenue fund within the Town stabilization major governmental fund in the fund-based basic financial statements.

NOTE 11 – 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, 2010, the amount of the liability for incurred but not reported health insurance claims totaled \$1,734,000 which is reported on the balance sheet and statement of net assets. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2008, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2009.....	\$ 1,678,000	\$	11,735,917	\$	(11,467,917)	\$	1,946,000
Fiscal Year 2010.....	1,946,000		11,885,556		(12,097,556)		1,734,000

(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, 2010, the amount of the liability for workers' compensation claims totaled \$487,000. This liability is the Town's best estimate based on available information. Changes in the reported liability since July 1, 2008, are as follows:

	Balance at Beginning of Fiscal Year		Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2009.....	\$ 580,000	\$	435,873	\$	(488,873)	\$	527,000
Fiscal Year 2010.....	527,000		326,886		(366,886)		487,000

NOTE 12 – 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 \$11,265,000 for the fiscal year ended June 30, 2010, 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, Massachusetts 02476-4701.

At December 31, 2009, the System's membership consists of the following:

Active members.....	694
Inactive members.....	212
Retirees and beneficiaries currently receiving benefits.....	<u>656</u>
Total.....	<u><u>1,562</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, 2010, 2009, and 2008 were \$7,181,006, \$7,035,632, and \$7,022,886 respectively, which equaled its required contribution for each fiscal year. At June 30, 2010, the Town did not have a net pension obligation. The fiscal year 2010 required contribution was determined as part of the January 1, 2008 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 on a closed basis. The remaining amortization period at January 1, 2010, was 21 years for the fresh start base that accounts for over 99% of the unfunded liability; 10 years for the 2003 early retirement incentives (ERI's); and 11 years for the 2004 ERI's.

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/10	\$ 115,704	\$ 211,647	\$ 95,943	54.7%	\$ 28,904	331.9%
1/1/08	144,810	192,195	47,385	75.3%	27,755	170.7%
1/1/07	136,510	186,069	49,559	73.4%	27,140	182.6%
1/1/06	123,490	178,655	55,165	69.1%	26,338	209.5%
1/1/05	112,721	173,251	60,530	65.1%	25,308	239.2%
1/1/04	103,154	167,816	64,662	61.5%	23,948	270.0%
1/1/03	94,182	157,330	63,148	59.9%	23,557	268.1%

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 2010 totaled approximately \$143,000.

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Town implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45) in fiscal year 2009. As allowed by GASB 45, the Town has established the net Other Postemployment Benefits (OPEB) obligation at zero at the beginning of the transition year and has applied the measurement and recognition requirements of GASB 45 on a prospective basis.

The Town implemented the provisions of GASB Statement 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, during fiscal year 2007 and established its "Other Postemployment Benefit Trust Fund". The Town voted to begin pre-funding its OPEB liabilities through the use of this irrevocable trust.

Plan Description – The Town of Arlington administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

At June 30, 2010, the Plan’s membership consisted of the following:

Current retirees, beneficiaries, and dependents.....	982
Current active members.....	<u>1,164</u>
Total.....	<u><u>2,146</u></u>

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 75 to 85 percent of the cost of current-year premiums for eligible retired plan members and their spouses and may contribute additional amounts to pre-fund benefits. Plan members receiving benefits contribute the remaining 15 to 25 percent of their premium costs. For fiscal year 2010, the Town contributed \$6.1 million to the plan in addition to the pre-funding amount discussed below. Plan member contributions totaled approximately \$1.7 million.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish the Postemployment Benefit Trust Fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. During fiscal year 2010, the Town pre-funded future OPEB liabilities in the amount of \$498,000.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Annual Required Contribution.....	\$ 14,076,124
Interest on net OPEB obligation.....	178,512
ARC Adjustment.....	<u>(161,074)</u>
Annual OPEB cost (expense).....	14,093,562
Contributions made.....	<u>(7,735,362)</u>
Increase in net OPEB obligation.....	6,358,200
Net OPEB obligation-beginning of year.....	<u>3,966,939</u>
Net OPEB obligation-end of year.....	<u><u>\$ 10,325,139</u></u>

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 14,093,562	55%	\$ 6,358,200
6/30/2009	12,728,760	69%	3,966,939

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2009	\$ 2,594,771	\$ 167,296,616	\$ 164,746,845	2%	\$ 54,207,000	303.8%
1/1/2008	2,908,621	142,348,809	139,440,188	2%	58,552,680	238.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following additional information is provided as of the latest actuarial valuation:

Valuation Date.....	January 1, 2010
Actuarial Cost Method.....	Entry Age Normal
Amortization Method.....	Approximate level percent of payroll, closed
Remaining Amortization Period.....	21 years for the fresh start retirement benefits schedule, which accounts for over 99% of the unfunded liability; 10 years for the 2003 early retirement incentives (ERI's); and 11 years for the 2004 ERI's.
Asset Valuation Method.....	Market value adjusted by accounts payable and receivables adjusted to phase in over 4 years investment gains or losses above or below the expected rate of investment return.

NOTE 14 – COMMITMENTSSymmes Hospital Site

In fiscal year 2002, after a Proposition 2 ½ referendum debt exclusion vote, the Town Meeting approved a borrowing authorization of \$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 operated the site for two years with two major tenants occupying part of the former hospital building while 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. The collapse of the housing market nationwide required that the project be changed from a condominium project to a rental project which had significant financial implications for the Town. The sale price and terms were renegotiated, but the continuing value of the property upon which the tax revenues are based is lower and therefore the repayment of the remaining debt will take longer than previously expected. At the end of fiscal 2007, the developer closed on the purchase of the site. Total net expenditures were \$12.2 million at the time of closing on the property sale.

At closing, the debt pay down by the Town was \$5.7 million, leaving \$6.5 million in debt. Following demolition of the buildings and preparation of the site, the collapse of the credit market made it impossible for the developer to obtain construction financing and the project stalled in the fall of 2008. At the close of fiscal 2010, the developer is seeking a sale of the project (subject to all the terms of the Land Disposition Agreement). After months of effort, the market is beginning to respond to the developer's efforts and it is reasonable to expect resumption of construction during fiscal 2011.

Special legislation permitted the Town to continue to issue bond anticipation notes until 2012 and gives the Town the flexibility to decide for itself when to make principal payments, evaluating the most advantageous payment schedule each year until then. If no extra principal payments are made until permanent financing is begun in 2012, the Town's net indebtedness (borrowed funds minus available funds) will be \$5.3 million. As an apartment development, tax revenues available for debt repayment will be approximately \$750,000 per year.

The Town converted the tax-exempt Bond Anticipation Notes (BANs) to General Obligation Urban Renewal Bonds on December 9, 2009 in the amount of \$5,262,000. The debt schedule carries principal and interest payments to August 2021. These Triple-A rated bonds carry a total interest cost rate of 2.386%. The taxable BANs of \$1.3M for this site were rolled-over on August 17, 2010 at a SP-1+ rated issue, carrying an interest rate of 1.009%. These bonds and BANs are exempt from Proposition 2 ½.

The site will be redeveloped to accommodate up to 200 residential units and a medical or other use office building with more than half the land area remaining in open space all according to the urban renewal plan adopted by Town Meeting.

NOTE 15 – 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, 2010, 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, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2010.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2010, the following GASB pronouncements were implemented:

- The GASB issued Statement #57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The standards in this statement permits an agent employer that has an individual employer OPEB plan with fewer than 100 members to use an alternative measurement method to produce actuarially based information for purposes of financial reporting, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issued Statement #58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The standards in this statement provide guidance for bankrupt state and local governments by establishing requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities and for classifying changes in those items and related costs. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issued Statement #59, *Financial Instruments Omnibus*, which is required to be implemented in fiscal year 2011. Management has elected to implement this standard early and this standard did not impact the basic financial statements.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

Required Supplementary Information

General Fund Budgetary Comparison Schedule

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

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

FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 82,317,609	\$ 82,317,609	\$ 82,317,609
Tax liens.....	-	-	-	-
Motor vehicle excise taxes.....	-	3,510,272	3,510,272	3,510,272
Hotel/motel tax.....	-	125,000	125,000	125,000
Intergovernmental.....	-	16,071,328	16,071,328	16,071,328
Departmental and other.....	-	3,721,600	3,721,600	3,721,600
Investment income.....	-	370,000	370,000	370,000
TOTAL REVENUES.....	-	106,115,809	106,115,809	106,115,809
EXPENDITURES:				
Current:				
General government.....	977,918	4,369,304	5,347,222	4,345,000
Public safety.....	7,171	12,890,551	12,897,722	13,364,726
Education.....	3,546,055	39,857,589	43,403,644	43,388,642
Public works.....	366,551	7,973,465	8,340,016	8,656,839
Community development.....	12,322	655,624	667,946	697,060
Human services.....	3,233	790,612	793,845	812,215
Library.....	10,343	1,974,669	1,985,012	1,937,506
Culture and recreation.....	-	17,927	17,927	19,482
Pension benefits.....	-	6,595,296	6,595,296	6,595,296
Property and liability insurance.....	-	493,450	493,450	320,625
Employee benefits.....	10,596	17,546,886	17,557,482	18,398,625
Claims and judgments.....	-	-	-	-
State and county charges.....	-	2,640,512	2,640,512	2,640,512
Debt service:				
Principal.....	-	5,853,400	5,853,400	5,853,400
Interest.....	238,485	1,661,718	1,900,203	1,900,203
TOTAL EXPENDITURES.....	5,172,674	103,321,003	108,493,677	108,930,131
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(5,172,674)	2,794,806	(2,377,868)	(2,814,322)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds.....	-	-	-	-
Transfers in.....	-	3,806,842	3,806,842	3,806,842
Transfers out.....	-	(7,140,759)	(7,140,759)	(6,727,128)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(3,333,917)	(3,333,917)	(2,920,286)
NET CHANGE IN FUND BALANCE.....	(5,172,674)	(539,111)	(5,711,785)	(5,734,608)
BUDGETARY FUND BALANCE, Beginning of year.....	7,597,586	7,597,586	7,597,586	7,597,586
BUDGETARY FUND BALANCE, End of year.....	\$ 2,424,912	\$ 7,058,475	\$ 1,885,801	\$ 1,862,978

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 82,576,221	\$ -	\$ 258,612
375,618	-	375,618
3,757,148	-	246,876
165,114	-	40,114
16,259,969	-	188,641
4,160,419	-	438,819
102,254	-	(267,746)
<u>107,396,743</u>	<u>-</u>	<u>1,280,934</u>
3,688,306	604,991	51,703
13,275,289	3,975	85,462
41,084,134	3,827,858	(1,523,350)
8,947,705	84,615	(375,481)
670,923	-	26,137
795,095	4,003	13,117
1,909,739	-	27,767
14,531	451	4,500
6,580,454	683	14,159
264,569	-	56,056
17,882,568	164,641	351,416
25,000	-	(25,000)
2,671,798	-	(31,286)
5,810,000	43,400	-
1,860,000	40,203	-
<u>105,480,111</u>	<u>4,774,820</u>	<u>(1,324,800)</u>
<u>1,916,632</u>	<u>(4,774,820)</u>	<u>(43,866)</u>
225,869	-	225,869
3,812,419	-	5,577
(6,727,128)	-	-
<u>(2,688,840)</u>	<u>-</u>	<u>231,446</u>
(772,208)	(4,774,820)	187,580
7,597,586	-	-
<u>\$ 6,825,378</u>	<u>\$ (4,774,820)</u>	<u>\$ 187,580</u>

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the Town is one participating employer, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2010	\$ 115,704	\$ 211,647	\$ 95,943	55%	\$ 28,904	331.9%
1/1/2008	144,811	192,195	47,384	75%	27,755	170.7%
1/1/2007	136,510	186,069	49,559	73%	27,140	182.6%
1/1/2006	123,490	178,655	55,165	69%	26,338	209.5%
1/1/2005	112,721	173,251	60,530	65%	25,308	239.2%
1/1/2004	103,154	167,816	64,662	61%	23,948	270.0%
1/1/2003	94,182	157,330	63,148	60%	23,557	268.1%

The Town's share of the UAAL, as of June 30, 2010, is approximately 95.6%.

See notes to required supplementary information.

ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	System Wide			Town of Arlington	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2010	\$ 7,510,490	\$ 7,510,490	100%	\$ 7,181,006	95.6%
2009	7,220,233	7,220,233	100%	7,035,632	97.4%
2008	7,177,556	7,177,556	100%	7,022,886	97.8%
2007	7,048,540	7,048,540	100%	6,773,552	96.1%
2006	6,779,875	6,779,875	100%	6,534,227	96.4%
2005	6,434,791	6,434,791	100%	6,177,741	96.0%

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2009	\$ 3,219,096	\$ 167,296,616	\$ 164,077,520	2%	\$ 54,207,000	302.7%
1/1/2008	2,594,771	142,348,809	139,754,038	2%	58,552,680	238.7%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2010	\$ 14,076,124	\$ 7,735,362	55%
6/30/2009	12,728,760	8,761,821	69%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	January 1, 2009
Actuarial cost method.....	Costs are based on the projected unit credit method.
Amortization method.....	Amortization is based on assumed payroll increase of 3.25%
Remaining amortization period.....	28 years as of July 1, 2010, closed

Actuarial Assumptions:

Investment rate of return.....	4.50%
Medical/drug cost trend rate.....	10%-5%

Plan Membership:

Current retirees, beneficiaries, and dependents...	982
Current active members.....	<u>1,164</u>
Total.....	<u><u>2,146</u></u>

See notes to required supplementary information.

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 2010 original budget includes approximately \$110.5 million in current year authorized appropriations and other amounts to be raised and \$5.2 million in encumbrances and appropriations were carried over from previous fiscal years. During fiscal year 2010, the Town approved supplemental appropriations totaling \$850,000. The budget reductions were made in general government, pension benefits, education, public works, liability Insurance, and health insurance.

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, 2010, is presented as follows:

Net change in fund balance, budgetary basis.....	\$ (772,208)
<u>Perspective difference:</u>	
Activity of health insurance and municipal building insurance trust recorded in the general fund for GAAP.....	1,185,669
<u>Basis of accounting differences:</u>	
Recognition of expenditures on modified accrual basis.....	633,542
Recognition of revenue for on-behalf payment.....	(11,265,262)
Recognition of expenditure for on-behalf payment.....	<u>11,265,262</u>
Net change in fund balance, GAAP basis.....	<u>\$ 1,047,003</u>

C. Appropriation Deficits

The Town has an unauthorized deficit reported in the education function due to an underreporting of year-end expenditures by the school department. The Town has taken action in the subsequent fiscal year to raise this deficit and to ensure that similar problems will not occur in future fiscal years. Additionally, general fund expenditures exceeded budgeted appropriations for public works, claims and judgments and state and county charges. These deficits are allowable and will be funded in fiscal year 2011 through real estate taxes or with other available funds.

NOTE B – PENSION PLAN

The Town contributes to the system, a cost-sharing, multiple-employer defined benefit pension plan (“Plan”) administered by the Arlington Contributory Retirement Board. The System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. The Town is required to pay into the Retirement System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town’s proportionate share of the plan’s annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

The following actuarial methods and assumptions were used in the Retirement System’s most recent actuarial valuation:

Valuation Date.....	January 1, 2010
Actuarial Cost Method.....	Entry Age Normal
Amortization Method.....	Approximate level percent of payroll, closed
Remaining Amortization Period.....	21 years for the fresh start retirement benefits schedule, which accounts for over 99% of the unfunded liability; 10 years for the 2003 early retirement incentives (ERI's); and 11 years for the 2004 ERI's.
Asset Valuation Method.....	Market value adjusted by accounts payable and receivables adjusted to phase in over 4 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value. Market value of assets is \$105,185,142.
Actuarial Assumptions:	
Investment Rate of Return.....	7.75% per year net of investment expenses
Projected Salary Increases.....	4.75% per year

NOTE C – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Town administers a single-employer defined benefit healthcare plan (“the Other Postemployment Benefit Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town’s health insurance plan, which covers both active and retired members, including teachers.

The Town currently finances its other postemployment benefits (OPEB) on combined pre-funded and a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 2%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multiyear trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.