

***TOWN OF ARLINGTON, MASSACHUSETTS***

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

***FISCAL YEAR ENDED JUNE 30, 2012***

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100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
[www.powersandsullivan.com](http://www.powersandsullivan.com)

## 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, 2012 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2011), 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, 2012 (except for the Arlington Contributory Retirement System which is as of December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, located on the following pages, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financials statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an

appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Powers & Sullivan LLC*

December 4, 2012

***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, 2012. 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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

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

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Town's 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, 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. The Town maintains three different types of fiduciary funds. The pension trust fund is used to account for resources held in trust for members of the Arlington Contributory Retirement System. The other postemployment benefit trust fund is used to account for resources held in trust to fund the Town's portion of health benefits for retirees and beneficiaries. The private purpose trust fund is used to account for resources held in trust which principle and investment income exclusively benefit individuals, private organizations, or other governments.

**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 \$114.3 million at the close of fiscal year 2012.

The largest portion of the Town's net assets, \$92.8 million (81%) 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 \$12.5 million (11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$9 million, (8%) may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental Activities**

	Balance at June 30, 2012	Balance at June 30, 2011	Increase (Decrease)
<b>Assets:</b>			
Current assets.....	\$ 64,451,958	\$ 48,691,057	\$ 15,760,901
Noncurrent assets (excluding capital).....	13,524,499	15,770,613	(2,246,114)
Capital assets.....	<u>125,087,655</u>	<u>121,049,137</u>	4,038,518
<b>Total assets.....</b>	<b><u>203,064,112</u></b>	<b><u>185,510,807</u></b>	<b><u>17,553,305</u></b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	11,169,076	10,695,439	473,637
Noncurrent liabilities (excluding debt).....	25,066,621	18,788,486	6,278,135
Current debt.....	12,670,664	6,948,000	5,722,664
Noncurrent debt.....	<u>39,810,000</u>	<u>44,465,000</u>	<u>(4,655,000)</u>
<b>Total liabilities.....</b>	<b><u>88,716,361</u></b>	<b><u>80,896,925</u></b>	<b><u>7,819,436</u></b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	92,844,805	88,836,285	4,008,520
Restricted.....	12,466,608	11,742,585	724,023
Unrestricted.....	<u>9,036,338</u>	<u>4,035,012</u>	<u>5,001,326</u>
<b>Total net assets.....</b>	<b><u>\$ 114,347,751</u></b>	<b><u>\$ 104,613,882</u></b>	<b><u>\$ 9,733,869</u></b>

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year. Within the business-type activities, the Town reported a \$24,000 deficit balance for the youth services enterprise fund which is the result of recording a \$96,000 other postemployment benefits liability.

The governmental activities net assets increased by \$9.7 million during the current fiscal year. Increases in net assets were partially derived from the recognition of MSBA capital grants for school improvements of approximately \$2.6 million, a voted tax override (see below), better than anticipated results in the general fund and nonmajor governmental funds, and debt principal expenditures exceeding depreciation expense by approximately \$1.4 million. Offsetting these increases was an increase of \$6.5 million in the Town's other postemployment benefit obligation and a \$500,000 payment 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.

The \$2 million decrease in noncurrent assets (excluding capital) is primarily 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.

For fiscal year 2012, the Town voted a tax override of \$6.5 million that resulted in an increase in real estate and personal property tax revenue above the usual 2 ½% increase allowed by Massachusetts General Laws. The override was approved by voters to prevent otherwise projected decreases in municipal services. The Town has reserved a portion of the additional tax funds to be used to stabilize future operating budgets.

The Town experienced a significant decrease in unrestricted investment income. This was primarily due to a decrease in the market value of investments in the Town's trust accounts, which are categorized within the special revenue and permanent funds within the governmental funds.



Education expenditures increased by \$3 million from 2011 to 2012. This increase is mainly attributable to the \$4.4 million increase in budgeted school expenditures partially funded through the tax override.

Community development expenditures decreased by \$526,000 from 2011 to 2012. This decrease was partially due to a decrease in federal grant funding for an energy assistance program for low income households.

**Governmental Activities**

	Fiscal Year 2012	Fiscal Year 2011	Increase (Decrease)
<b>Program revenues:</b>			
Charges for services.....	\$ 12,681,923	\$ 11,033,186	\$ 1,648,737
Operating grants and contributions.....	31,877,615	31,413,523	464,092
Capital grants and contributions.....	2,852,994	818,797	2,034,197
<b>General revenues:</b>			
Real estate and personal property taxes.....	94,167,638	85,205,036	8,962,602
Tax liens.....	459,150	297,796	161,354
Motor vehicle excise taxes.....	3,921,568	3,898,459	23,109
Hotel/motel tax.....	262,094	240,164	21,930
Meals tax.....	307,037	292,732	14,305
Penalties and interest on taxes.....	252,493	338,835	(86,342)
Nonrestricted grants and contributions.....	6,939,154	7,057,873	(118,719)
Unrestricted investment income.....	239,339	1,522,798	(1,283,459)
Miscellaneous revenues.....	13,973	-	13,973
<b>Total revenues.....</b>	<b>153,974,978</b>	<b>142,119,199</b>	<b>11,855,779</b>
<b>Expenses:</b>			
General government.....	10,355,512	10,075,388	280,124
Public safety.....	23,275,317	23,488,337	(213,020)
Education.....	80,540,822	77,660,108	2,880,714
Public works.....	11,598,855	11,912,960	(314,105)
Community and economic development.....	5,029,219	5,555,679	(526,460)
Human services.....	1,792,014	1,681,125	110,889
Library.....	3,352,988	3,262,508	90,480
Culture and recreation.....	652,529	483,383	169,146
Interest.....	1,361,552	1,749,050	(387,498)
<b>Total expenses.....</b>	<b>137,958,808</b>	<b>135,868,538</b>	<b>2,090,270</b>
<b>Transfers.....</b>	<b>(6,282,301)</b>	<b>(6,361,094)</b>	<b>78,793</b>
<b>Change in net assets.....</b>	<b>\$ 9,733,869</b>	<b>\$ (110,433)</b>	<b>\$ 9,844,302</b>

**Business-Type Activities**

	Balance at June 30, 2012	Balance at June 30, 2011	Increase (Decrease)
<b>Assets:</b>			
Current assets.....	\$ 10,170,937	\$ 10,920,824	\$ (749,887)
Capital assets.....	20,471,906	18,197,134	2,274,772
<b>Total assets.....</b>	<b>30,642,843</b>	<b>29,117,958</b>	<b>1,524,885</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	164,066	193,494	(29,428)
Noncurrent liabilities (excluding debt).....	720,199	519,553	200,646
Current debt.....	1,163,295	1,062,449	100,846
Noncurrent debt.....	5,851,350	4,956,565	894,785
<b>Total liabilities.....</b>	<b>7,898,910</b>	<b>6,732,061</b>	<b>1,166,849</b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	14,543,666	13,065,709	1,477,957
Unrestricted.....	8,200,267	9,320,188	(1,119,921)
<b>Total net assets.....</b>	<b>\$ 22,743,933</b>	<b>\$ 22,385,897</b>	<b>\$ 358,036</b>
	Fiscal Year 2012	Fiscal Year 2011	Increase (Decrease)
<b>Program revenues:</b>			
Charges for services.....	\$ 12,030,535	\$ 14,539,069	\$ (2,508,534)
Operating grants and contributions.....	107,968	129,185	(21,217)
<b>General revenues:</b>			
Unrestricted investment income.....	46,339	40,850	5,489
<b>Total revenues.....</b>	<b>12,184,842</b>	<b>14,709,104</b>	<b>(2,524,262)</b>
<b>Expenses:</b>			
Water and Sewer.....	16,430,637	15,957,414	473,223
Youth Services.....	387,042	420,751	(33,709)
Council on Aging.....	100,544	80,716	19,828
Veterans' Rink.....	603,557	538,807	64,750
Recreation.....	587,327	575,960	11,367
<b>Total expenses.....</b>	<b>18,109,107</b>	<b>17,573,648</b>	<b>535,459</b>
<b>Transfers.....</b>	<b>6,282,301</b>	<b>6,361,094</b>	<b>(78,793)</b>
<b>Change in net assets.....</b>	<b>\$ 358,036</b>	<b>\$ 3,496,550</b>	<b>\$ (3,138,514)</b>

There was a net increase of \$358,000 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 2012 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 increase in net assets of \$358,000 was primarily the net result of

increases in capital assets acquired throughout the year that were partially funded with operating funds, offset by a decrease in charges for services of approximately \$2.5 million as a result of decreased water usage.

The increase in capital assets is primarily due to the water and sewer enterprise fund's investment in water and sewer lines and water meters, totaling approximately \$2.5 million in fiscal year 2012, which was funded through available funds and \$434,000 in playground improvements in the recreation enterprise fund.

### ***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 the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned 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 \$43.9 million, an increase of \$9.4 million from the prior year.

The general fund budgeted to use \$585,000 of available reserves to balance the fiscal year 2012 budget. The reserves were from available funds "free cash" totaling \$385,000, and prior reserves released by the board of assessors "overlay surplus" totaling \$200,000. However, actual results from operations were better than anticipated as the Town collected approximately \$1.6 million more than budgeted and departments expended \$3.0 million less than budgeted.

Included in the general fund is the activity of the Town's stabilization funds which totaled \$7.1 million at year end. This was an increase of \$3.6 million from fiscal year 2011 and was primarily the result of funds generated by the tax override.

The Town's capital borrowing major fund had reported a deficit fund balance of \$1.2 million, a decrease of \$3.8 million from the prior year. During fiscal year 2012, the Town recognized \$1.3 million in bond proceeds in this major fund which represents long-term borrowing used to finance various capital projects identified in the Town's capital improvement plan. Current expenditures in this fund totaled \$6.6 million and related mainly to improvements to the community safety building, fire stations and schools. The fund reports a deficit because capital expenditures have been partially funded through short-term BANs which are not recorded as funding sources on the fund based financial statements.

The \$2.5 million increase the nonmajor governmental funds, which reported \$20.6 million in revenues, \$19.5 million in expenditures, and \$1.3 in other financing sources and uses, was due primarily to the Town's 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 approved by the finance committee during the fiscal year, year-end transfers approved to reallocate appropriations to cover budgetary shortfalls, and supplemental appropriations to fund transfers to stabilization funds. The reserve fund is initially budgeted under general government. The budget is adjusted as transfers are approved by the finance committee. By category, all actual revenues came in over budget with the exception of real estate and personal

property taxes and intergovernmental. In total, revenues exceeded the budget by \$1.6 million and expenditures and reserves ended the year under budget by \$3 million. \$1.4 million of this surplus was in employee benefits.

### ***Other Postemployment Benefits (OPEB)***

In 2006 the Arlington Town Meeting formed the Other Postemployment Benefits Committee. The committee's charge is to make recommendations on the potential funding mechanisms for the postemployment 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 began partially funding this liability in an internally created healthcare trust fund established by Chapter 12 of the Acts of 1998. Upon the implementation of 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 between the non-contributory pension appropriation and \$500,000 to the OPEB fund. 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.

An actuarial study determined that Arlington's total Actuarial Accrued Liability as of January 1, 2011, at a 4.45% partially funded discount rate, totaled \$162 million. As of June 30, 2012, the Town has recognized a liability for other postemployment benefits totaling \$23.6 million. The increase in the liability is based on the difference between the Annual Required Contribution (ARC) of \$14.6 million and the Town's actual contribution of \$7.9 million which was made through a combination of benefit payments and pre-fundings to the OPEB Trust Fund in the amounts of \$7.4 million and \$500,000, respectively. The assets set aside in trust for future benefits amounted to \$4.5 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 \$900,000 and a new borrowing of \$1.2 million. The Town's outstanding long-term debt related to the general government, as of June 30, 2012, was \$46.4 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 \$5.6 million in fiscal year 2012 from the MWRA assessment to the property taxes. During fiscal year 2012, the Town issued an additional \$758,000 in MWRA sewer 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 correspondingly increase 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. Redevelopment of this site is currently underway and is planned to accommodate up to 200 residential units and an assisted living facility 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 15 for further information on this project.

The Town of Arlington is in the process of renovating/replacing all of its seven elementary schools. To date five schools have been completed, one is currently under renovation, and one is currently being reconstructed. Funding for the first round of school renovations was from excluded debt 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). The July 28, 2011 Town Meeting approved \$20 million for the Thompson School with an approved 50.42% reimbursement from the Massachusetts School Building Authority.

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.

The Town advance refunded \$6,355,000 of general obligation bonds through the issuance of \$6,311,000 of general obligation refunding bonds on August 24, 2011. Through this advance refunding, the Town will realize a decrease in its aggregate debt service payments by approximately \$927,000 over the next 9 years. Of the cash flow savings, approximately \$540,000 was shared with the Massachusetts School Building Authority and the remaining approximately \$387,000 stayed with the Town.

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 02476.

# ***Basic Financial Statements***

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**STATEMENT OF NET ASSETS**

JUNE 30, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 48,119,957	\$ 4,864,001	\$ 52,983,958
Investments.....	8,192,979	-	8,192,979
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	7,954	-	7,954
Real estate tax deferrals.....	61,532	-	61,532
Tax liens.....	858,109	-	858,109
Motor vehicle excise taxes.....	198,099	-	198,099
User fees.....	-	5,306,936	5,306,936
Departmental and other.....	271,735	-	271,735
Intergovernmental.....	6,108,957	-	6,108,957
Loans.....	158,490	-	158,490
Tax foreclosures.....	396,784	-	396,784
Deferred loss on refunding.....	58,357	-	58,357
Unamortized bond issue cost.....	19,005	-	19,005
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	246,134	-	246,134
Intergovernmental.....	12,365,289	-	12,365,289
Loans.....	633,961	-	633,961
Deferred loss on refunding.....	227,093	-	227,093
Unamortized bond issue cost.....	52,022	-	52,022
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	19,496,194	522,243	20,018,437
Depreciable.....	105,591,461	19,949,663	125,541,124
<b>TOTAL ASSETS.....</b>	<b>203,064,112</b>	<b>30,642,843</b>	<b>233,706,955</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	2,401,906	66,554	2,468,460
Accrued payroll.....	3,645,669	31,512	3,677,181
Accrued interest.....	598,333	-	598,333
Payroll withholdings.....	683,634	-	683,634
Abandoned property.....	44,705	-	44,705
Other liabilities.....	530,224	-	530,224
Customer deposits payable.....	12,300	-	12,300
Compensated absences.....	3,052,000	66,000	3,118,000
Workers' compensation.....	166,000	-	166,000
Unamortized premium on bonds payable.....	34,305	-	34,305
Notes payable.....	314	-	314
Bonds payable.....	12,670,350	1,163,295	13,833,645
<b>NONCURRENT:</b>			
Compensated absences.....	1,980,000	58,000	2,038,000
Workers' compensation.....	60,000	-	60,000
Other postemployment benefits.....	22,931,905	662,199	23,594,104
Unamortized premium on bonds payable.....	94,716	-	94,716
Bonds and notes payable.....	39,810,000	5,851,350	45,661,350
<b>TOTAL LIABILITIES.....</b>	<b>88,716,361</b>	<b>7,898,910</b>	<b>96,615,271</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	92,844,805	14,543,666	107,388,471
Restricted for:			
Loans.....	792,451	-	792,451
Permanent funds:			
Expendable.....	4,470,703	-	4,470,703
Nonexpendable.....	3,697,719	-	3,697,719
Gifts and grants.....	3,505,735	-	3,505,735
Unrestricted.....	9,036,338	8,200,267	17,236,605
<b>TOTAL NET ASSETS.....</b>	<b>\$ 114,347,751</b>	<b>\$ 22,743,933</b>	<b>\$ 137,091,684</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 10,355,512	\$ 3,052,376	\$ 592,755	\$ -	\$ (6,710,381)
Public safety.....	23,275,317	4,359,394	109,546	-	(18,806,377)
Education.....	80,540,822	3,380,703	26,207,950	2,573,103	(48,379,066)
Public works.....	11,598,855	793,846	26,300	279,891	(10,498,818)
Community development.....	5,029,219	350,435	3,276,014	-	(1,402,770)
Human services.....	1,792,014	212,230	431,477	-	(1,148,307)
Library.....	3,352,988	47,321	442,451	-	(2,863,216)
Culture and recreation.....	652,529	485,618	338,213	-	171,302
Interest.....	1,361,552	-	452,909	-	(908,643)
<b>Total Governmental Activities.....</b>	<b>137,958,808</b>	<b>12,681,923</b>	<b>31,877,615</b>	<b>2,852,994</b>	<b>(90,546,276)</b>
<i>Business-Type Activities:</i>					
Water and Sewer.....	16,430,637	10,718,706	-	-	(5,711,931)
Youth Services.....	387,042	195,357	67,968	-	(123,717)
Council on Aging.....	100,544	31,312	40,000	-	(29,232)
Veterans' Rink.....	603,557	553,362	-	-	(50,195)
Recreation.....	587,327	531,798	-	-	(55,529)
<b>Total Business-Type Activities.....</b>	<b>18,109,107</b>	<b>12,030,535</b>	<b>107,968</b>	<b>-</b>	<b>(5,970,604)</b>
<b>Total Primary Government.....</b>	<b>\$ 156,067,915</b>	<b>\$ 24,712,458</b>	<b>\$ 31,985,583</b>	<b>\$ 2,852,994</b>	<b>\$ (96,516,880)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ (90,546,276)	\$ (5,970,604)	\$ (96,516,880)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	94,167,638	-	94,167,638
Tax liens.....	459,150	-	459,150
Motor vehicle excise taxes.....	3,921,568	-	3,921,568
Hotel/motel tax.....	262,094	-	262,094
Meals tax.....	307,037	-	307,037
Penalties and interest on taxes.....	252,493	-	252,493
Grants and contributions not restricted to specific programs.....	6,939,154	-	6,939,154
Unrestricted investment income.....	239,339	46,339	285,678
Miscellaneous.....	13,973	-	13,973
<i>Transfers, net</i> .....	(6,282,301)	6,282,301	-
Total general revenues and transfers.....	100,280,145	6,328,640	106,608,785
Change in net assets.....	9,733,869	358,036	10,091,905
<i>Net Assets:</i>			
Beginning of year.....	104,613,882	22,385,897	126,999,779
End of year.....	\$ 114,347,751	\$ 22,743,933	\$ 137,091,684

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2012

<b>ASSETS</b>	<u>General</u>	<u>Capital Borrowing Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 30,888,920	\$ 5,831,968	\$ 11,399,069	\$ 48,119,957
Investments.....	-	-	8,192,979	8,192,979
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	7,954	-	-	7,954
Real estate tax deferrals.....	307,666	-	-	307,666
Tax liens.....	858,109	-	-	858,109
Motor vehicle excise taxes.....	198,099	-	-	198,099
Departmental and other.....	271,735	-	-	271,735
Intergovernmental.....	15,336,362	-	3,137,884	18,474,246
Loans.....	-	-	792,451	792,451
Tax foreclosures.....	396,784	-	-	396,784
<b>TOTAL ASSETS.....</b>	<b>\$ 48,265,629</b>	<b>\$ 5,831,968</b>	<b>\$ 23,522,383</b>	<b>\$ 77,619,980</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 755,144	\$ 930,516	\$ 716,246	\$ 2,401,906
Accrued payroll.....	3,596,670	-	48,999	3,645,669
Liabilities due depositors.....	12,300	-	-	12,300
Payroll withholdings.....	683,634	-	-	683,634
Abandoned property.....	44,705	-	-	44,705
Other liabilities.....	530,224	-	-	530,224
Deferred revenues.....	16,548,618	-	3,753,282	20,301,900
Notes payable.....	-	314	-	314
<b>TOTAL LIABILITIES.....</b>	<b>22,171,295</b>	<b>930,830</b>	<b>4,518,527</b>	<b>27,620,652</b>
<b>FUND BALANCES:</b>				
Nonspendable.....	-	-	3,697,719	3,697,719
Restricted.....	5,296,611	6,877,927	15,436,837	27,611,375
Committed.....	1,373,224	-	-	1,373,224
Assigned.....	2,616,386	-	-	2,616,386
Unassigned.....	16,808,113	(1,976,789)	(130,700)	14,700,624
<b>TOTAL FUND BALANCES.....</b>	<b>26,094,334</b>	<b>4,901,138</b>	<b>19,003,856</b>	<b>49,999,328</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 48,265,629</b>	<b>\$ 5,831,968</b>	<b>\$ 23,522,383</b>	<b>\$ 77,619,980</b>

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances.....		\$ 49,999,328
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		125,087,655
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		20,301,900
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(598,333)
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.....	(52,480,350)	
Unamortized bond issue costs.....	71,027	
Unamortized premium on bonds payable.....	(129,021)	
Workers' compensation.....	(226,000)	
Compensated absences.....	(5,032,000)	
Other postemployment benefits.....	<u>(22,931,905)</u>	
Net effect of reporting long-term liabilities.....		(80,728,249)
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>285,450</u>
Net assets of governmental activities.....		<u>\$ 114,347,751</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 94,115,885	\$ -	\$ 49,374	\$ 94,165,259
Tax liens.....	251,050	-	-	251,050
Motor vehicle excise taxes.....	3,937,078	-	-	3,937,078
Hotel/motel tax.....	262,094	-	-	262,094
Meals tax.....	307,037	-	-	307,037
Fees and rentals.....	-	-	85,381	85,381
Intergovernmental.....	30,066,650	1,745,006	10,128,504	41,940,160
Departmental and other.....	5,194,935	-	9,325,818	14,520,753
Contributions.....	-	-	853,012	853,012
Investment income.....	96,854	283	142,202	239,339
<b>TOTAL REVENUES.....</b>	<b>134,231,583</b>	<b>1,745,289</b>	<b>20,584,291</b>	<b>156,561,163</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	3,985,557	188,731	1,513,233	5,687,521
Public safety.....	13,128,836	976,340	1,637,726	15,742,902
Education.....	43,765,046	4,931,971	8,356,776	57,053,793
Public works.....	8,267,518	350,093	1,677,651	10,295,262
Community development.....	510,083	46,417	4,550,490	5,106,990
Human services.....	838,241	41,382	596,001	1,475,624
Library.....	1,996,880	67,126	238,433	2,302,439
Culture and recreation.....	13,268	8,720	671,346	693,334
Pension benefits.....	19,646,204	-	-	19,646,204
Property and liability insurance.....	258,592	-	-	258,592
Employee benefits.....	13,573,190	-	-	13,573,190
State and county charges.....	2,762,765	-	-	2,762,765
Debt service:				
Principal.....	6,184,155	-	153,845	6,338,000
Interest.....	1,596,255	-	67,075	1,663,330
<b>TOTAL EXPENDITURES.....</b>	<b>116,526,590</b>	<b>6,610,780</b>	<b>19,462,576</b>	<b>142,599,946</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>17,704,993</b>	<b>(4,865,491)</b>	<b>1,121,715</b>	<b>13,961,217</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Debt issuance.....	-	7,449,350	-	7,449,350
Proceeds from refunding bonds.....	6,311,000	-	-	6,311,000
Premium from issuance of bonds.....	-	-	300,352	300,352
Premium from issuance of refunding bonds.....	476,376	-	-	476,376
Payment to refunded bond escrow agent.....	(6,705,093)	-	-	(6,705,093)
Transfers in.....	492,965	404,947	1,778,285	2,676,197
Transfers out.....	(7,522,362)	(701,376)	(734,760)	(8,958,498)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>(6,947,114)</b>	<b>7,152,921</b>	<b>1,343,877</b>	<b>1,549,684</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>10,757,879</b>	<b>2,287,430</b>	<b>2,465,592</b>	<b>15,510,901</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>15,336,455</b>	<b>2,613,708</b>	<b>16,538,264</b>	<b>34,488,427</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 26,094,334</b>	<b>\$ 4,901,138</b>	<b>\$ 19,003,856</b>	<b>\$ 49,999,328</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds.....		\$ 15,510,901
<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.....	8,974,277	
Depreciation expense.....	<u>(4,935,759)</u>	
Net effect of reporting capital assets.....		4,038,518
<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>		
		(2,586,185)
<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.....	(7,449,350)	
Premium from issuance of bonds, net of issue costs.....	(300,352)	
Debt service principal payments.....	6,338,000	
Proceeds from refunding bonds.....	(6,311,000)	
Payment to refunded bond escrow agent.....	6,705,093	
Premium from issuance of refunding costs, net of issue costs.....	<u>(350,093)</u>	
Net effect of reporting long-term debt.....		(1,367,702)
Net change in accrued interest on long-term debt.....	52,394	
Amortization of issuance costs.....	(22,398)	
Amortization of bond premiums.....	340,764	
Amortization of deferred charge on refunding.....	<u>(68,982)</u>	
Net effect of reporting other debt related activity.....		301,778
<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.....	120,000	
Net change in other postemployment benefits accrual.....	(6,529,441)	
Net change in workers' compensation accrual.....	<u>246,000</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>(6,163,441)</u>
Change in net assets of governmental activities.....		\$ <u><u>9,733,869</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**

JUNE 30, 2012

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
<b>ASSETS</b>			
CURRENT:			
Cash and cash equivalents.....	\$ 4,441,327	\$ 84,598	\$ 118,619
Receivables, net of allowance for uncollectibles:			
User fees.....	5,306,936	-	-
Total current assets.....	9,748,263	84,598	118,619
NONCURRENT:			
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	64,977	-	-
Depreciable.....	18,109,122	-	40,883
Total noncurrent assets.....	18,174,099	-	40,883
TOTAL ASSETS.....	27,922,362	84,598	159,502
<b>LIABILITIES</b>			
CURRENT:			
Warrants payable.....	56,145	7,990	-
Accrued payroll.....	12,558	4,900	1,462
Compensated absences.....	56,000	-	-
Bonds payable.....	1,063,295	-	-
Total current liabilities.....	1,187,998	12,890	1,462
NONCURRENT:			
Compensated absences.....	50,000	-	-
Other postemployment benefits obligation.....	342,121	95,952	10,985
Bonds payable.....	5,151,350	-	-
Total noncurrent liabilities.....	5,543,471	95,952	10,985
TOTAL LIABILITIES.....	6,731,469	108,842	12,447
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	13,045,859	-	40,883
Unrestricted.....	8,145,034	(24,244)	106,172
TOTAL NET ASSETS.....	\$ 21,190,893	\$ (24,244)	\$ 147,055

See notes to basic financial statements.



Veterans' Rink Enterprise	Recreation Enterprise	Total
\$ 93,277	\$ 126,180	\$ 4,864,001
-	-	5,306,936
93,277	126,180	10,170,937
-	457,266	522,243
1,042,201	757,457	19,949,663
1,042,201	1,214,723	20,471,906
1,135,478	1,340,903	30,642,843
2,035	384	66,554
3,580	9,012	31,512
10,000	-	66,000
100,000	-	1,163,295
115,615	9,396	1,327,361
8,000	-	58,000
59,751	153,390	662,199
700,000	-	5,851,350
767,751	153,390	6,571,549
883,366	162,786	7,898,910
242,201	1,214,723	14,543,666
9,911	(36,606)	8,200,267
\$ 252,112	\$ 1,178,117	\$ 22,743,933

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

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
<b>OPERATING REVENUES:</b>			
Charges for services .....	\$ 10,635,186	\$ 195,357	\$ 31,312
Intergovernmental.....	-	67,968	40,000
<b>TOTAL OPERATING REVENUES .....</b>	<b>10,635,186</b>	<b>263,325</b>	<b>71,312</b>
<b>OPERATING EXPENSES:</b>			
Salaries and wages.....	1,751,345	246,538	61,168
Cost of services and administration .....	1,022,281	140,504	29,577
MWRA Assessment.....	11,301,948	-	-
Depreciation.....	595,991	-	6,670
Employee benefits .....	1,759,072	-	3,129
<b>TOTAL OPERATING EXPENSES .....</b>	<b>16,430,637</b>	<b>387,042</b>	<b>100,544</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(5,795,451)</b>	<b>(123,717)</b>	<b>(29,232)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income.....	46,339	-	-
Intergovernmental.....	83,520	-	-
<b>TOTAL NONOPERATING REVENUES, (EXPENSES), NET.....</b>	<b>129,859</b>	<b>-</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....</b>	<b>(5,665,592)</b>	<b>(123,717)</b>	<b>(29,232)</b>
<b>CAPITAL CONTRIBUTIONS.....</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TRANSFERS IN.....</b>	<b>5,606,591</b>	<b>145,769</b>	<b>39,402</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>(59,001)</b>	<b>22,052</b>	<b>10,170</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>21,249,894</b>	<b>(46,296)</b>	<b>136,885</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 21,190,893</b>	<b>\$ (24,244)</b>	<b>\$ 147,055</b>

See notes to basic financial statements.

	Veterans' Rink Enterprise	Recreation Enterprise	Total
\$	553,362	\$ 531,798	\$ 11,947,015
	-	-	107,968
	<u>553,362</u>	<u>531,798</u>	<u>12,054,983</u>
	233,807	277,434	2,570,292
	234,360	164,159	1,590,881
	-	-	11,301,948
	60,491	44,118	707,270
	<u>74,899</u>	<u>101,616</u>	<u>1,938,716</u>
	<u>603,557</u>	<u>587,327</u>	<u>18,109,107</u>
	<u>(50,195)</u>	<u>(55,529)</u>	<u>(6,054,124)</u>
	-	-	46,339
	-	-	<u>83,520</u>
	-	-	129,859
	<u>(50,195)</u>	<u>(55,529)</u>	<u>(5,924,265)</u>
	-	<u>433,741</u>	<u>433,741</u>
	<u>50,978</u>	<u>5,820</u>	<u>5,848,560</u>
	783	384,032	358,036
	<u>251,329</u>	<u>794,085</u>	<u>22,385,897</u>
\$	<u><u>252,112</u></u>	\$ <u><u>1,178,117</u></u>	\$ <u><u>22,743,933</u></u>

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users.....	\$ 10,899,253	\$ 195,357	\$ 31,312
Receipts from other governments.....	-	67,968	40,000
Payments to vendors.....	(13,935,086)	(142,357)	(29,619)
Payments to employees.....	(1,754,774)	(245,197)	(60,894)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>(4,790,607)</b>	<b>(124,229)</b>	<b>(19,201)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers in.....	5,606,591	145,769	39,402
Intergovernmental subsidy.....	83,520	-	-
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>5,690,111</b>	<b>145,769</b>	<b>39,402</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from the issuance of bonds and notes.....	2,058,080	-	-
Capital contributions.....	-	-	-
Acquisition and construction of capital assets.....	(2,579,526)	-	-
Principal payments on bonds and notes.....	(962,449)	-	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(1,483,895)</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income.....	46,339	-	-
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>(538,052)</b>	<b>21,540</b>	<b>20,201</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>4,979,379</b>	<b>63,058</b>	<b>98,418</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 4,441,327</b>	<b>\$ 84,598</b>	<b>\$ 118,619</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</b>			
<b>FROM OPERATING ACTIVITIES:</b>			
Operating income (loss).....	\$ (5,795,451)	\$ (123,717)	\$ (29,232)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	595,991	-	6,670
Changes in assets and liabilities:			
User fees.....	264,067	-	-
Warrants payable.....	18,187	3,668	(42)
Accrued payroll.....	(1,429)	1,341	274
Accrued compensated absences.....	(2,000)	-	-
Other postemployment benefits.....	130,028	(5,521)	3,129
Total adjustments.....	1,004,844	(512)	10,031
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ (4,790,607)</b>	<b>\$ (124,229)</b>	<b>\$ (19,201)</b>

See notes to basic financial statements.

Veterans' Rink Enterprise	Recreation Enterprise	Total
\$ 553,362	\$ 531,798	\$ 12,211,082
-	-	107,968
(291,651)	(220,897)	(14,619,610)
<u>(214,563)</u>	<u>(273,558)</u>	<u>(2,548,986)</u>
<u>47,148</u>	<u>37,343</u>	<u>(4,849,546)</u>
50,978	5,820	5,848,560
-	-	83,520
<u>50,978</u>	<u>5,820</u>	<u>5,932,080</u>
-	-	2,058,080
-	433,741	433,741
-	(464,539)	(3,044,065)
<u>(100,000)</u>	<u>-</u>	<u>(1,062,449)</u>
<u>(100,000)</u>	<u>(30,798)</u>	<u>(1,614,693)</u>
-	-	46,339
(1,874)	12,365	(485,820)
<u>95,151</u>	<u>113,815</u>	<u>5,349,821</u>
<u>\$ 93,277</u>	<u>\$ 126,180</u>	<u>\$ 4,864,001</u>
\$ (50,195)	\$ (55,529)	\$ (6,054,124)
60,491	44,118	707,270
-	-	264,067
592	(116)	22,289
1,244	3,876	5,306
18,000	-	16,000
<u>17,016</u>	<u>44,994</u>	<u>189,646</u>
<u>97,343</u>	<u>92,872</u>	<u>1,204,578</u>
<u>\$ 47,148</u>	<u>\$ 37,343</u>	<u>\$ (4,849,546)</u>

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 3,900,227	\$ -	\$ 268,115	\$ 5,993
Investments.....	105,320,243	4,484,968	4,544,129	-
Interest and dividends.....	439	-	-	-
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	203,448	-	-	-
<b>TOTAL ASSETS.....</b>	<b>109,424,357</b>	<b>4,484,968</b>	<b>4,812,244</b>	<b>5,993</b>
<b>LIABILITIES</b>				
Warrants payable.....	-	-	200	-
Liabilities due depositors.....	-	-	-	5,993
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>-</b>	<b>200</b>	<b>5,993</b>
<b>NET ASSETS</b>				
Held in trust for pension and OPEB benefits and other purposes.....	\$ <u>109,424,357</u>	\$ <u>4,484,968</u>	\$ <u>4,812,044</u>	\$ <u>-</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer.....	\$ 8,441,969	\$ 499,739	\$ -
Employee.....	2,697,700	-	-
Private donations.....	-	-	288,733
Total contributions.....	<u>11,139,669</u>	<u>499,739</u>	<u>288,733</u>
Net investment income (loss):			
Net change in fair value of investments.....	1,160,942	(3,674)	(67,871)
Investment income.....	<u>10,437</u>	<u>-</u>	<u>131,011</u>
Total investment income (loss).....	1,171,379	(3,674)	63,140
Less: investment expense.....	<u>(577,692)</u>	<u>-</u>	<u>-</u>
Net investment income (loss).....	<u>593,687</u>	<u>(3,674)</u>	<u>63,140</u>
Intergovernmental.....	<u>472,334</u>	<u>-</u>	<u>-</u>
Transfers from other systems.....	<u>448,585</u>	<u>-</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>12,654,275</u>	<u>496,065</u>	<u>351,873</u>
<b>DEDUCTIONS:</b>			
Administration.....	245,548	-	-
Transfers to other systems.....	960,175	-	-
Retirement benefits and refunds.....	16,109,494	-	-
Human services.....	-	-	16,266
Educational scholarships.....	<u>-</u>	<u>-</u>	<u>483,887</u>
TOTAL DEDUCTIONS.....	<u>17,315,217</u>	<u>-</u>	<u>500,153</u>
CHANGE IN NET ASSETS.....	(4,660,942)	496,065	(148,280)
NET ASSETS AT BEGINNING OF YEAR.....	<u>114,085,299</u>	<u>3,988,903</u>	<u>4,960,324</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 109,424,357</u>	<u>\$ 4,484,968</u>	<u>\$ 4,812,044</u>

See notes to basic financial statements.

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

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

**A. Reporting Entity**

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

For financial reporting purposes, the Town has included all funds, organizations, 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 Career & 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 2012, the Town’s annual assessment totaled



\$2,479,583. Complete financial statements for the Minuteman Career & 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 enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

#### *Fund Financial Statements*

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

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

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

The following major governmental funds are reported:

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

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

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

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report 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, other postemployment benefit trust, 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.

#### D. Cash and Investments

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

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

Investments are carried at fair value.

#### E. Accounts Receivable

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

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

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

Property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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

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

##### ***Motor Vehicle Excise Taxes***

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

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

##### ***User Fees***

Water and sewer user fees are levied semi-annually based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed in June of every year and are included as a lien on the property owner's tax bill in the following fiscal year. Water and sewer user fees are recorded as receivables in the fiscal year of the levy. 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, fire alarm renewal fees and insurance reimbursements 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 are reported as restricted when amounts 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 loan receivable balances.

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings on donor restricted trusts. The restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Gifts and grants” represents assets that have restrictions placed on them from outside parties.

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net assets and unrestricted net assets in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted net assets to have been depleted before unrestricted net assets are applied.

*Fund Financial Statements (Fund Balances)*

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town Meeting is the highest level of decision making authority that can, by Town Meeting vote, commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Town’s by-laws authorize the Comptroller to assign fund balance. Assignments generally only exist temporarily. Additional action does not have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Sometimes the Town will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the Town’s policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

#### 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.

##### *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. 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.

P. 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 investment management of the Town’s Contributory Retirement Board. The Town Treasurer is the custodian of the OPEB Trust Fund. Investments of approximately \$4.5 million in the OPEB Trust Fund are included within the Town’s investments balance 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’s established policy is to fully collateralize all deposits. At fiscal year-end, the carrying amount of deposits totaled \$12,592,455 and the bank balance totaled \$14,980,095. Of the bank balance, \$791,812 was covered by Federal Depository Insurance and \$14,188,283 was fully collateralized. Accordingly, none of the Town’s deposits are exposed to custodial credit risk.

At December 31, 2011, carrying amount of deposits for the Pension System totaled \$277,432 and the bank balance totaled \$423,516. All of the bank balance was covered by the Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

Investments

As of June 30, 2012, 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
<u>Debt Securities:</u>					
Corporate Bonds.....	\$ 4,509,614	\$ <u>357,448</u>	\$ <u>1,846,579</u>	\$ <u>1,275,123</u>	\$ <u>1,030,464</u>
<u>Other Investments:</u>					
Mutual Funds.....	4,484,968				
Equity Securities.....	8,227,494				
Money Market Mutual Funds.....	471,695				
MMDT.....	<u>40,193,916</u>				
Total Investments.....	\$ <u>57,887,687</u>				

As of December 31, 2011, the Pension System had the following investments:

PRIT.....	\$ 100,115,121
Money Market Mutual Funds.....	3,622,795
Equity Mutual Funds.....	<u>5,205,122</u>
Total Investments.....	\$ <u>108,943,038</u>

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 9.69 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, 2012, the Town’s investments in MMDT which totaled \$40,193,916 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 \$8,227,494 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, 2011, the System’s investments in PRIT and open-end mutual funds totaling \$108,943,038 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 up to twelve months 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. The current practice is to review credit risk quarterly. At June 30, 2012 the Town’s investments were rated as follows:

Quality Ratings	Corporate Bonds
AAA.....	\$ 1,046,695
AA+.....	291,792
AA.....	448,110
AA-.....	102,195
A+.....	787,585
A.....	290,629
A-.....	859,738
BBB+.....	241,658
BBB.....	234,047
BBB-.....	119,832
Not rated.....	<u>87,333</u>
Fair Value....	<u>\$ 4,509,614</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 Equivalents.....	0%	0%	5%

**NOTE 3 – RECEIVABLES**

At June 30, 2012, receivables for the individual major and nonmajor 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.....	\$ 7,954	\$ -	\$ 7,954
Real estate tax deferrals.....	307,666	-	307,666
Tax liens.....	858,109	-	858,109
Motor vehicle excise taxes.....	637,175	(439,076)	198,099
Departmental and other.....	272,025	(290)	271,735
Intergovernmental.....	18,474,246	-	18,474,246
Loans.....	792,451	-	792,451
Total.....	<u>\$ 21,349,626</u>	<u>\$ (439,366)</u>	<u>\$ 20,910,260</u>

At June 30, 2012, receivables for the proprietary funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer fees.....	\$ 5,306,936	\$ -	\$ 5,306,936

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.....	\$ 7,960	\$ -	\$ 7,960
Real estate tax deferrals.....	307,666	-	307,666
Tax liens.....	858,109	-	858,109
Motor vehicle excise taxes.....	198,099	-	198,099
Departmental and other.....	271,735	-	271,735
State school construction funds.....	14,508,265	-	14,508,265
Intergovernmental.....	-	2,960,831	2,960,831
Loans.....	-	792,451	792,451
Tax foreclosures.....	396,784	-	396,784
<b>Total.....</b>	<b>\$ 16,548,618</b>	<b>\$ 3,753,282</b>	<b>\$ 20,301,900</b>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,525,593	\$ -	\$ -	\$ 10,525,593
Construction in progress.....	9,039,611	4,001,920	(4,070,930)	8,970,601
<b>Total capital assets not being depreciated.....</b>	<b>19,565,204</b>	<b>4,001,920</b>	<b>(4,070,930)</b>	<b>19,496,194</b>
<u>Capital assets being depreciated:</u>				
Buildings.....	107,837,904	3,918,300	-	111,756,204
Improvements.....	11,232,883	2,890,346	-	14,123,229
Vehicles and equipment.....	10,075,987	395,768	(115,281)	10,356,474
Infrastructure.....	62,940,216	1,838,873	-	64,779,089
<b>Total capital assets being depreciated.....</b>	<b>192,086,990</b>	<b>9,043,287</b>	<b>(115,281)</b>	<b>201,014,996</b>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(42,282,019)	(2,128,625)	-	(44,410,644)
Improvements.....	(2,452,128)	(649,985)	-	(3,102,113)
Vehicles and equipment.....	(5,995,068)	(799,168)	115,281	(6,678,955)
Infrastructure.....	(39,873,842)	(1,357,981)	-	(41,231,823)
<b>Total accumulated depreciation.....</b>	<b>(90,603,057)</b>	<b>(4,935,759)</b>	<b>115,281</b>	<b>(95,423,535)</b>
<b>Total capital assets being depreciated, net.....</b>	<b>101,483,933</b>	<b>4,107,528</b>	<b>-</b>	<b>105,591,461</b>
<b>Total governmental activities capital assets, net.....</b>	<b>\$ 121,049,137</b>	<b>\$ 8,109,448</b>	<b>\$ (4,070,930)</b>	<b>\$ 125,087,655</b>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,954	\$ -	\$ -	\$ 2,954
Construction in progress.....	114,029	433,741	(28,481)	519,289
Total capital assets not being depreciated.....	116,983	433,741	(28,481)	522,243
<u>Capital assets being depreciated:</u>				
Buildings.....	730,566	-	-	730,566
Improvements.....	1,883,217	30,798	-	1,914,015
Vehicles and equipment.....	3,072,005	30,120	-	3,102,125
Infrastructure.....	17,475,121	2,515,864	-	19,990,985
Total capital assets being depreciated.....	23,160,909	2,576,782	-	25,737,691
<u>Less accumulated depreciation for:</u>				
Buildings.....	(186,267)	(15,122)	-	(201,389)
Improvements.....	(109,742)	(98,358)	-	(208,100)
Vehicles and equipment.....	(700,511)	(267,118)	-	(967,629)
Infrastructure.....	(4,084,238)	(326,672)	-	(4,410,910)
Total accumulated depreciation.....	(5,080,758)	(707,270)	-	(5,788,028)
Total capital assets being depreciated, net.....	18,080,151	1,869,512	-	19,949,663
Total business-type activities capital assets, net.....	\$ 18,197,134	\$ 2,303,253	\$ (28,481)	\$ 20,471,906

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

**Governmental Activities:**

General government.....	\$ 325,839
Public safety.....	564,651
Education.....	1,930,880
Public works.....	1,738,144
Property and natural resources.....	132,710
Community development.....	49,909
Human services.....	9,548
Library.....	168,105
Culture and recreation.....	15,973

Total depreciation expense - governmental activities..... \$ 4,935,759

**Business-Type Activities:**

Water and sewer.....	\$ 595,991
Council on aging.....	6,670
Veterans' rink.....	60,491
Recreation.....	44,118

Total depreciation expense - business-type activities..... \$ 707,270

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Transfers In:	Transfers Out:			Total
	General Fund	Capital Borrowing Fund	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ -	\$ 492,965	\$ 492,965 (1)
Capital Borrowing Fund.....	123,500	267,635	13,812	404,947 (2)
Nonmajor Governmental Funds.....	1,579,425	-	198,860	1,778,285 (3)
Water and Sewer Enterprise Fund.....	5,606,591	-	-	5,606,591 (4)
Youth Services Enterprise Fund.....	124,769	-	21,000	145,769 (4)
Council On Aging Enterprise Fund.....	31,279	-	8,123	39,402 (4)
Veterans' Rink Enterprise Fund.....	50,978	-	-	50,978 (4)
Recreation Enterprise Fund.....	5,820	433,741	-	439,561 (4)
Totals.....	\$ <u>7,522,362</u>	\$ <u>701,376</u>	\$ <u>734,760</u>	\$ <u>8,958,498</u>

- (1) Represents budgeted transfers to the general fund from the conservation commission, cemetery perpetual care, central school, ambulance revolving and antenna rental revolving nonmajor governmental funds.
- (2) Represents transfers within capital borrowing funds, a budgeted transfer from the general fund to the capital borrowing fund for the Stratton School project and transfers from capital tax levy funds within nonmajor governmental funds to capital borrowing funds.
- (3) Represents transfers within nonmajor governmental funds and transfers to nonmajor governmental funds from the general fund which primarily consist of the Town’s budgeted share of capital projects, transfers to the school special revenue funds and a transfer to the employee insurance mitigation fund.
- (4) Represents budgeted transfers from the general fund to the water and sewer, youth services, veterans’ rink, recreation and council on aging enterprise funds. Also represents a capital contribution from the capital borrowing funds to the recreation enterprise fund representing the Wellington Park Playground project.

**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, 2012, the Town had the following short-term debt outstanding:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2011	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2012
BAN	School Construction.....	0.75	11/15/12	\$ -	\$ 6,120,664	\$ 6,120,350	\$ 314 (1)

(1) On November 15, 2012 the Town issued long-term bonds totaling \$12,692,000, of which \$6,120,350 was used to retire outstanding BANS. The Town has recognized the \$6,120,350 in bond proceeds and has recorded the corresponding debt as long-term as of June 30, 2012. The remaining \$314 BAN was retired upon maturity with available funds.

**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, 2012, and the debt service requirements are as follows:

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

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Municipal Purpose - 2002.....	2021	\$ 17,827,000	3.75 - 4.88	\$ 7,165,000	\$ -	\$ 7,165,000	\$ -
Municipal Purpose - 2003.....	2024	7,392,000	4.50	3,165,000	-	315,000	2,850,000
Municipal Purpose - 2004.....	2015	3,980,000	2.50 - 3.75	1,320,000	-	330,000	990,000
GOB Refunding - 2005.....	2017	3,100,000	3.00 - 5.00	2,335,000	-	355,000	1,980,000
GOB Refunding - 2005.....	2017	2,630,000	3.00 - 5.00	1,645,000	-	285,000	1,360,000
Municipal Purpose - 2005.....	2021	5,171,000	2.80 - 4.13	2,420,000	-	290,000	2,130,000
Municipal Purpose - 2006.....	2026	3,320,952	4.00 - 5.50	4,300,000	-	450,000	3,850,000
Municipal Purpose - 2007.....	2018	3,102,000	3.75 - 4.75	1,900,000	-	375,000	1,525,000
GOB Refunding - 2007.....	2018	11,690,000	3.75 - 5.00	8,725,000	-	1,330,000	7,395,000
Municipal Purpose - 2007.....	2018	100,000	3.75 - 4.50	70,000	-	10,000	60,000
Municipal Purpose - 2008.....	2019	3,875,000	3.00 - 3.62	2,700,000	-	585,000	2,115,000
Symmes Property.....	2022	5,262,000	2.00 - 4.00	4,905,000	-	390,000	4,515,000
Municipal Purpose - 2009.....	2020	2,482,000	2.00 - 3.00	2,195,000	-	280,000	1,915,000
Municipal Purpose - 2010.....	2031	7,258,000	2.00 - 4.00	7,258,000	-	533,000	6,725,000
Symmes Property - taxable.....	2019	840,000	2.00 - 2.50	840,000	-	-	840,000
Symmes Property.....	2022	470,000	2.00 - 3.00	470,000	-	-	470,000
Municipal Purpose - 2011.....	2022	1,329,000	2.00 - 3.00	-	1,329,000	-	1,329,000
GOB Refunding - 2011.....	2021	6,311,000	2.00 - 3.00	-	6,311,000	-	6,311,000
Municipal Purpose - 2012.....	2033	6,120,350	2.00 - 5.00	-	6,120,350	-	6,120,350
Total bonds payable.....				\$ 51,413,000	\$ 13,760,350	\$ 12,693,000	\$ 52,480,350



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>
2013.....	\$ 6,550,000	\$ 1,475,379	\$ 8,025,379
2014.....	6,635,350	1,281,554	7,916,904
2015.....	6,155,000	1,083,996	7,238,996
2016.....	5,720,000	894,413	6,614,413
2017.....	5,460,000	797,707	6,257,707
2018.....	4,355,000	717,268	5,072,268
2019.....	3,125,000	583,297	3,708,297
2020.....	2,860,000	480,260	3,340,260
2021.....	2,610,000	384,329	2,994,329
2022.....	1,755,000	302,951	2,057,951
2023.....	1,050,000	248,295	1,298,295
2024.....	1,035,000	207,123	1,242,123
2025.....	870,000	171,066	1,041,066
2026.....	870,000	139,472	1,009,472
2027.....	565,000	113,663	678,663
2028.....	565,000	96,431	661,431
2029.....	565,000	81,769	646,769
2030.....	565,000	66,753	631,753
2031.....	560,000	51,138	611,138
2032.....	305,000	39,547	344,547
2033.....	305,000	32,209	337,209
Totals.....	\$ <u>52,480,350</u>	\$ <u>9,248,620</u>	\$ <u>61,728,970</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 \$312,000. 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, 2012, and the debt service requirements are as follows:

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Municipal Purpose - 2006.....	2017	\$ 2,000,000	4.00 - 5.50	\$ 1,200,000	\$ -	\$ 200,000	\$ 1,000,000
Water and Sewer Bonds - MWRA.....	2022	7,237,690	-	3,919,014	758,080	762,449	3,914,645
Municipal Purpose - 2011.....	2022	1,300,000	2.00 - 3.00	-	1,300,000	-	1,300,000
Total water and sewer enterprise fund bonds payable.....				\$ 5,119,014	\$ 2,058,080	\$ 962,449	\$ 6,214,645

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

	Principal	Interest	Total
2013.....	\$ 1,063,295	\$ 72,475	\$ 1,135,770
2014.....	992,378	60,975	1,053,353
2015.....	932,340	49,475	981,815
2016.....	836,116	37,975	874,091
2017.....	711,516	25,700	737,216
2018.....	491,100	17,550	508,650
2019.....	491,100	13,650	504,750
2020.....	305,600	9,750	315,350
2021.....	195,600	5,850	201,450
2022.....	195,600	1,950	197,550
Totals.....	\$ 6,214,645	\$ 295,350	\$ 6,509,995

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

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Rink Renovations.....	2020	\$ 1,000,000	2.00 - 3.00	\$ 900,000	\$ -	\$ 100,000	\$ 800,000

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>
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.....	<u>100,000</u>	<u>1,500</u>	<u>101,500</u>
Totals.....	<u>\$ 800,000</u>	<u>\$ 85,250</u>	<u>\$ 885,250</u>

The Town advance refunded \$6,355,000 of general obligation bonds through the issuance of \$6,311,000 of general obligation refunding bonds on August 24, 2011. Proceeds were used to purchase \$6,705,093 of U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered defeased and the liabilities were removed from the financial statements for the fiscal year ending June 30, 2012. Through this advance refunding, the Town has taken advantage of lower interest rates to realize a decrease in its aggregate debt service payments by approximately \$927,000 over the next 9 years. The Town also realized an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$786,000. Of the cashflow savings, approximately \$540,000 was shared with the Massachusetts School Building Authority and the remaining approximately \$387,000 stayed with the Town.

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 2012, \$2,531,085 of such assistance was received. Approximately \$15,891,000 will be received in future fiscal years. Of this amount, approximately \$1,383,000 represents reimbursement of long-term interest costs, and approximately \$14,508,000 represents reimbursement of approved construction costs. Accordingly, a \$14,508,000 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.

The Commonwealth has modified the method for funding new projects in the school building assistance program. Under the new program, the assistance is paid to support the State's share of construction costs as they are incurred, therefore eliminating the need for the Town to fund the State's share through long-term debt. The Thompson Elementary School project is being funded by this program. Through the end of fiscal year 2012, the Town has recorded capital grant revenue totaling \$1,082,114 from the MSBA which is equal to 50.42% of approved construction costs incurred to date. The Town received \$1,082,114 of reimbursements in fiscal 2012 and anticipates receiving the \$828,097 of these reimbursements in fiscal year 2013. Accordingly, the Town has recorded an intergovernmental receivable totaling \$828,097 as of June 30, 2012.

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, 2012, the Town had the following authorized and unissued debt:

Purpose	Amount
Symmes Property.....	\$ 1,293,000
School.....	20,616,821
Road Repairs.....	200,000
Sewer.....	1,882,800
Water.....	3,839,000
Fire Stations.....	10,125,000
Remodeling.....	824,700
Various Purposes.....	158,258
Computer.....	649,200
Safety Improvements.....	25,000
Departmental Equipment.....	997,000
Street Lights.....	625,000
Recreation.....	435,750
Rink Renovations.....	280,000
Parking Lot Improvements.....	85,000
Retaining Wall.....	50,000
Community Safety Building Renovation...	2,240,000
<b>Total.....</b>	<b>\$ 44,326,529</b>

Changes in long-term liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Governmental Activities:</b>					
Long-Term Bonds and Notes.....	\$ 51,413,000	\$ 13,760,350	\$ (12,693,000)	\$ 52,480,350	\$ 6,550,000
Other Postemployment Benefits.....	16,402,464	14,325,437	(7,795,996)	22,931,905	-
Workers' Compensation.....	472,000	186,177	(432,177)	226,000	166,000
Compensated Absences.....	5,152,000	3,133,000	(3,253,000)	5,032,000	3,052,000
<b>Total governmental activities.....</b>	<b>\$ 73,439,464</b>	<b>\$ 31,404,964</b>	<b>\$ (24,174,173)</b>	<b>\$ 80,670,255</b>	<b>\$ 9,768,000</b>
<b>Business-Type Activities:</b>					
Long-Term Bonds and Notes.....	\$ 6,019,014	\$ 2,058,080	\$ (1,062,449)	\$ 7,014,645	\$ 1,163,295
Other Postemployment Benefits.....	472,553	332,349	(142,703)	662,199	-
Compensated Absences.....	108,000	77,000	(61,000)	124,000	66,000
<b>Total business-type activities.....</b>	<b>\$ 6,599,567</b>	<b>\$ 2,467,429</b>	<b>\$ (1,266,152)</b>	<b>\$ 7,800,844</b>	<b>\$ 1,229,295</b>

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The Town classifies fund balances according to the constraints imposed on the use of the resources. There are two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

Spendable fund balances are classified based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

The Town's stabilization funds have been reported within the general fund as unassigned and the Town's municipal insurance funds have been reported within the general fund as restricted.

The Town has classified its fund balances with the following hierarchy.

	GOVERNMENTAL FUNDS			
	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>				
Nonspendable:				
Permanent fund principal..... \$	- \$	- \$	3,697,719 \$	3,697,719
Restricted for:				
Municipal insurance.....	5,296,611	-	-	5,296,611
Capital borrowing funds.....	-	6,877,927	-	6,877,927
Town revolving funds.....	-	-	1,342,117	1,342,117
Town gift and grant funds.....	-	-	663,934	663,934
School lunch.....	-	-	178,557	178,557
School revolving funds.....	-	-	1,195,601	1,195,601
School gift and grant funds.....	-	-	2,841,801	2,841,801
Receipts reserved for appropriation.....	-	-	590,009	590,009
Special revenue trust funds.....	-	-	609,173	609,173
Employee insurance mitigation funds.....	-	-	425,000	425,000
Other special revenue funds.....	-	-	1,872,677	1,872,677
Symmes Property.....	-	-	696,335	696,335
Capital tax levy projects.....	-	-	472,993	472,993
Other capital projects.....	-	-	31,328	31,328
Cemeteries.....	-	-	433,254	433,254
Cemetery perpetual care.....	-	-	2,434,971	2,434,971
Libraries.....	-	-	1,540,774	1,540,774
Education permanent funds.....	-	-	108,313	108,313
Committed to:				
General government.....	1,226,536	-	-	1,226,536
Public works.....	6,373	-	-	6,373
Debt service principal.....	70,975	-	-	70,975
Debt service interest.....	69,340	-	-	69,340
Assigned to:				
General government.....	99,097	-	-	99,097
Public safety.....	59,801	-	-	59,801
Education.....	984,314	-	-	984,314
Public works.....	858,297	-	-	858,297
Community development.....	11,955	-	-	11,955
Human services.....	1,439	-	-	1,439
Culture and recreation.....	703	-	-	703
Employee benefits.....	780	-	-	780
Balance the FY13 operating budget.....	600,000	-	-	600,000
Unassigned.....	16,808,113	(1,976,789)	(130,700)	14,700,624
<b>TOTAL FUND BALANCES..... \$</b>	<b>26,094,334 \$</b>	<b>4,901,138 \$</b>	<b>19,003,856 \$</b>	<b>49,999,328</b>

**NOTE 9 – STABILIZATION FUND**

At June 30, 2012, the Town has \$2,562,470 in a stabilization fund, which is classified as part of the general 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 10 – 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 \$563,770 in the tip fee stabilization fund at June 30, 2012, which is recorded as part of the general fund in the fund-based financial statements. The activity of the fund in fiscal year 2012 consists of the following:

Fund balance at June 30, 2011.....	\$ 1,012,093
Investment income.....	1,677
Transfer to the general fund.....	<u>(450,000)</u>
Fund balance at June 30, 2012.....	<u>\$ 563,770</u>

**NOTE 11 – FISCAL STABILITY STABILIZATION FUND**

The Town created a Fiscal Stability Fund pursuant to Article 65 of the 2005 Annual Town Meeting in accordance with the provisions of the General Laws, Chapter 40, Section 5B, as amended. The Fund was established to hold surplus override tax revenues for future years in which operating deficits were projected. The initial funding was utilized over a six year period ending in Fiscal year 2011. The 2011 Annual Town Meeting authorized an additional \$2,603,139 to be raised in fiscal year 2012 and transferred to the Fiscal Stability Fund to be used to supplement future Town budgets. The additional funding was made available through a general tax override of \$6,490,000 which was approved at a special Town meeting held on June 7, 2011.

**NOTE 12 – 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. During fiscal year 2012, the Town discontinued a self-insured health insurance plan and joined the Group Insurance Commission of the Commonwealth of Massachusetts (GIC) to provide health insurance benefits for its employees and retirees. As part of the transition, the Town was required to establish an employee healthcare mitigation fund which is reported within the nonmajor governmental funds and had a balance of \$425,000.

The Town is self-insured for its 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.

**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, 2012, the amount of the liability for workers' compensation claims totaled \$226,000. This liability is the Town's best estimate based on available information. Changes in the reported liability since July 1, 2010, are as follows:

	<u>Balance at Beginning of Fiscal Year</u>		<u>Current Year Claims and Changes in Estimate</u>		<u>Claims Payments</u>		<u>Balance at Fiscal Year-End</u>
Fiscal Year 2011.....	\$ 487,000	\$	469,383	\$	(484,383)	\$	472,000
Fiscal Year 2012.....	472,000		186,177		(432,177)		226,000

**NOTE 13 – 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 \$12.3 million for the fiscal year ended June 30, 2012, 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, 2011, the System's membership consists of the following:

Active members.....	692
Inactive members.....	235
Retirees and beneficiaries currently receiving benefits.....	<u>639</u>
Total.....	<u><u>1,566</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, 2012, 2011, and 2010 were \$8,067,526, \$7,598,503, and \$7,181,006 respectively, which equaled its required contribution for each fiscal year. At June 30, 2012, the Town did not have a net pension obligation. The fiscal year 2012 required contribution was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.50% 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, 2011, was 21 years for the fresh start base that accounts for over 99% of the unfunded liability; 9 years for the 2003 early retirement incentives (ERI's); and 10 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)
1/1/11	\$ 121,403	\$ 222,496	\$ 101,093	54.6%	\$ 28,637	353.0%
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 2012 totaled approximately \$99,000.

**NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*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. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share

of health and life insurance premiums paid on-behalf of its teacher retirees by the state. The state pays 85 to 90 percent of the total premium; the retiree's co-payment is 10 to 15 percent of the total premium as well as full payment for catastrophic illness coverage.

As of the most recent actuarial valuation, the Plan's membership consisted of the following:

Current retirees, beneficiaries, and dependents...	1,049
Current active members.....	<u>1,017</u>
 Total.....	 <u><u>2,066</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 2012, the Town contributed \$7.9 million to the plan in addition to the pre-funding amount discussed below.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish the Other Postemployment Benefit Trust Fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. During fiscal year 2012, the Town pre-funded future OPEB liabilities in the amount of approximately \$500,000. The Other Postemployment Benefit Trust Fund is reported within the fiduciary funds in the fund based financial statements which carries a year-end balance totaling \$4.5 million.

*Annual OPEB Cost and Net OPEB Obligation* – The Town's annual 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.....	\$ 14,630,220
Interest on net OPEB obligation.....	750,938
ARC Adjustment.....	<u>(723,372)</u>
Annual OPEB cost (expense).....	14,657,786
 Contributions made.....	 <u>(7,938,699)</u>
Increase in net OPEB obligation.....	6,719,087
 Net OPEB obligation - beginning of year.....	 <u>16,875,017</u>
Net OPEB obligation - end of year.....	<u><u>\$ 23,594,104</u></u>

**Schedule of Employer Contributions**

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 14,657,786	54%	\$ 23,594,104
6/30/2011	14,943,704	56%	16,875,017
6/30/2010	14,093,562	55%	10,325,139
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)
1/1/2011	\$ 3,818,419	\$ 166,284,371	\$ 162,465,952	2%	\$ 56,420,000	288.0%
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 multi-year 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, 2011
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.....	27 years as of July 1, 2011, closed

**NOTE 15 – COMMITMENTS**Symmes 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. In 2009 and 2010, the developer sought a sale of the project (subject to all the terms of the Land Disposition Agreement). In 2011, the mortgage lender entered an agreement with a new entity, composed of former executives of the developer, to buy the promissory note and foreclose on the property. The new owner entity would then need to negotiate with the Town on modifications to the Land Disposition Agreement. In response to serious interest from a number of developers, the Town conducted an analysis of four developers' construction and operating pro formas to determine which proposal would be in the Town's best interest. Each developer proposes to break ground in calendar year 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 BANs of \$1.3 million 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.

Redevelopment of the site is currently underway and is planned to accommodate up to 200 residential units and an assisted living facility with more than half the land area remaining in open space all according to the urban renewal plan adopted by Town Meeting.

**NOTE 16 – 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, 2012, 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, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

**NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2012, the following GASB pronouncements were implemented:

- GASB Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

Management is currently assessing the impact that the implementation of these pronouncements will have on 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, 2012

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 94,193,570	\$ 94,193,570	\$ 94,193,570
Tax liens.....	-	-	-	-
Motor vehicle excise taxes.....	-	3,598,459	3,598,459	3,598,459
Hotel/motel tax.....	-	250,000	250,000	250,000
Meals tax.....	-	282,896	282,896	282,896
Intergovernmental.....	-	16,496,793	16,496,793	16,960,762
Departmental and other.....	-	4,116,165	4,116,165	4,116,165
Investment income.....	-	55,430	55,430	55,430
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>118,993,313</b>	<b>118,993,313</b>	<b>119,457,282</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	634,873	4,503,544	5,138,417	5,765,133
Public safety.....	24,986	13,085,944	13,110,930	13,113,598
Education.....	3,405,673	44,265,924	47,671,597	48,012,539
Public works.....	470,273	8,818,098	9,288,371	9,159,686
Community development.....	405	632,215	632,620	609,995
Human services.....	753	805,291	806,044	842,532
Library.....	33,488	1,948,851	1,982,339	2,014,199
Culture and recreation.....	1,923	17,427	19,350	17,427
Pension benefits.....	-	7,329,440	7,329,440	7,329,440
Property and liability insurance.....	-	593,450	593,450	320,625
Employee benefits.....	22,770	17,044,559	17,067,329	15,214,331
State and county charges.....	-	2,846,071	2,846,071	2,825,446
Debt service:				
Principal.....	-	6,095,830	6,095,830	6,255,130
Interest.....	-	1,665,595	1,665,595	1,665,595
<b>TOTAL EXPENDITURES.....</b>	<b>4,595,144</b>	<b>109,652,239</b>	<b>114,247,383</b>	<b>113,145,676</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(4,595,144)</b>	<b>9,341,074</b>	<b>4,745,930</b>	<b>6,311,606</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	-	942,947	942,947	942,947
Transfers out.....	-	(10,597,890)	(10,597,890)	(12,008,922)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(9,654,943)</b>	<b>(9,654,943)</b>	<b>(11,065,975)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(4,595,144)</b>	<b>(313,869)</b>	<b>(4,909,013)</b>	<b>(4,754,369)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>10,104,226</b>	<b>10,104,226</b>	<b>10,104,226</b>	<b>10,104,226</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 5,509,082</b>	<b>\$ 9,790,357</b>	<b>\$ 5,195,213</b>	<b>\$ 5,349,857</b>

See notes to required supplementary information.



	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	94,115,884	\$ -	\$ (77,686)
	251,050	-	251,050
	3,937,078	-	338,619
	262,094	-	12,094
	307,037	-	24,141
	16,915,027	-	(45,735)
	5,194,935	-	1,078,770
	67,150	-	11,720
	<u>121,050,255</u>	<u>-</u>	<u>1,592,973</u>
	3,844,209	1,325,633	595,291
	12,908,870	59,801	144,927
	43,476,902	4,134,314	401,323
	8,204,546	864,670	90,470
	497,530	11,955	100,510
	826,937	1,439	14,156
	1,970,938	-	43,261
	13,268	703	3,456
	7,317,877	-	11,563
	258,592	-	62,033
	13,799,866	780	1,413,685
	2,742,140	-	83,306
	6,184,155	70,975	-
	<u>1,596,255</u>	<u>69,340</u>	<u>-</u>
	<u>103,642,085</u>	<u>6,539,610</u>	<u>2,963,981</u>
	<u>17,408,170</u>	<u>(6,539,610)</u>	<u>4,556,954</u>
	942,964	-	17
	<u>(12,008,922)</u>	<u>-</u>	<u>-</u>
	<u>(11,065,958)</u>	<u>-</u>	<u>17</u>
	6,342,212	(6,539,610)	4,556,971
	<u>10,104,226</u>	<u>-</u>	<u>-</u>
\$	<u>16,446,438</u>	<u>(6,539,610)</u>	<u>4,556,971</u>

# ***Retirement System Schedules of Funding Progress and Employer Contributions***

The Retirement System Schedule of Funding Progress presents multi-year 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 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.

**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)
1/1/2011	\$ 121,403	\$ 222,496	\$ 101,093	55%	\$ 28,637	353.0%
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, 2012, 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	
2012	\$ 8,441,969	\$ 8,441,969	100%	\$ 8,067,526	95.6%	
2011	7,961,119	7,961,119	100%	7,598,503	95.4%	
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 multi-year 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**

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**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)
1/1/2011	\$ 3,818,419	\$ 166,284,371	\$ 162,465,952	2%	\$ 56,420,000	288.0%
1/1/2009	2,594,771	167,296,616	164,701,845	2%	54,207,000	303.8%
1/1/2008	2,908,621	142,348,809	139,440,188	2%	58,552,680	238.1%

**Schedule of Employer Contributions**

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2012	\$ 14,630,220	\$ 7,938,699	54%
6/30/2011	14,910,833	8,393,826	56%
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**

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Actuarial Methods:

Valuation date.....	January 1, 2011
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.....	27 years as of July 1, 2011, closed

Actuarial Assumptions:

Investment rate of return.....	4.45%
Medical/drug cost trend rate.....	10%-5%

Plan Membership:

Current retirees, beneficiaries, and dependents...	1,049
Current active members.....	<u>1,017</u>
Total.....	<u><u>2,066</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 2012 original budget includes approximately \$120.3 million in current year authorized appropriations and other amounts to be raised and \$4.6 million in encumbrances and appropriations were carried over from previous fiscal years. During fiscal year 2012, the Town's overall budget was increased by approximately \$309,000.

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



**B. Budgetary – GAAP Reconciliation**

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2012, is presented as follows:

Net change in fund balance, budgetary basis.....	\$	6,342,212
<u>Perspective differences:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		3,552,332
Activity of health insurance and municipal building insurance trust recorded in the general fund for GAAP.....		731,907
<u>Basis of accounting differences:</u>		
Recognition of revenue based on available criteria.....		828,098
Recognition of expenditures on modified accrual basis.....		(696,670)
Recognition of revenue for on-behalf payment.....		12,323,526
Recognition of expenditure for on-behalf payment.....		<u>(12,323,526)</u>
Net change in fund balance, GAAP basis.....	\$	<u>10,757,879</u>

**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, 2011
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; 9 years for the 2003 early retirement incentives (ERI's); and 10 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 \$114,085,298.

Actuarial Assumptions:

Investment Rate of Return.....	7.50% 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 multi-year 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 multi-year 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.