

TOWN OF ARLINGTON, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2001

TOWN OF ARLINGTON, MASSACHUSETTS

REPORT ON EXAMINATION OF GENERAL PURPOSE
FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2001

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Independent Auditors' Report

To the Board of Selectmen
Town of Arlington, Massachusetts

We have audited the accompanying general purpose financial statements of the Town of Arlington, Massachusetts, as of and for the fiscal year ended June 30, 2001 (except for the Town of Arlington's Contributory Retirement System which is as of December 31, 2000), as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Arlington's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

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

As more fully described in Note 1, the Town maintains its Enterprise Funds on a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the Enterprise Funds are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, except for the effect on the general purpose financial statements of the matters described in the preceding two paragraphs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Arlington, Massachusetts, as of June 30, 2001 (except for the Town of Arlington's Contributory Retirement System which is as of December 31, 2000), and the results of its operations and the cash flows of its Proprietary Fund Types and Nonexpendable Trust Funds, and the changes in net assets available for employees' pension benefits of its Pension Trust Fund for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2001, on our consideration of the Town of Arlington, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

August 23, 2001

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General Purpose Financial Statements

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

JUNE 30, 2001

ASSETS AND OTHER DEBITS	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Water and Sewer Enterprise	Youth Services Enterprise
Cash and short-term investments	\$ 14,791,332	\$ 3,023,003	\$ 2,076,358	\$ 5,504,432	\$ 3,278
Investments	2,628,104				
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	12,687				
Real estate tax liens	181,873				
Real estate tax deferrals	354,376				
Excise taxes	587,534				
User charges				961,979	
Departmental and other	95,990				
Dividends and interest					
Intergovernmental	16,756,000	3,534,741			
Community development loans		1,038,438			
Other assets:					
Real estate tax foreclosures	397,716				
Amounts to be provided for retirement of long-term obligations					
TOTAL ASSETS AND OTHER DEBITS	\$ 35,805,612	\$ 7,596,182	\$ 2,076,358	\$ 6,466,411	\$ 3,278
LIABILITIES AND FUND EQUITY					
LIABILITIES:					
Warrants payable	\$ 690,258	\$ 167,686	\$ 597,387	\$ 19,334	\$ 6,090
Accrued payroll	2,880,036	26,067	290	1,806	
Accrued liabilities	965,000		321,609		
Reserve tax refunds	123,000				
Liabilities due depositors	4,926				
Deferred revenues	17,928,460	3,430,741		961,979	
Workers' compensation					
Compensated absences					
Notes payable			1,148,000	382,626	
Bonds payable					
TOTAL LIABILITIES	22,591,680	3,624,494	2,067,286	1,365,745	6,090
FUND EQUITY (DEFICIT):					
Retained earnings (deficit)				5,100,666	(2,812)
Reserved for:					
Encumbrances and continuing appropriations	1,805,466				
Loans receivable		1,038,438			
Nonexpendable trusts					
Stabilization					
Employees' pension benefits					
Unreserved:					
Designated for subsequent year's expenditures	2,600,074				
Designated for employee benefits	1,133,175				
Designated for municipal insurance	2,628,104				
Undesignated	5,047,113	2,933,250	9,072		
TOTAL FUND EQUITY (DEFICIT)	13,213,932	3,971,688	9,072	5,100,666	(2,812)
TOTAL LIABILITIES AND FUND EQUITY	\$ 35,805,612	\$ 7,596,182	\$ 2,076,358	\$ 6,466,411	\$ 3,278

See notes to general purpose financial statements.

Proprietary Fund Types			Fiduciary Fund Types		Account Group	Total (Memorandum Only)
Council On Aging Enterprise	Veterans' Rink Enterprise	Recreation Enterprise	Trust and Agency	Pension Trust December 31, 2000	General Long-Term Obligations	
\$ 101,843	\$ 124,973	\$ 41,481	\$ 7,456,985	\$ 1,087,329	\$ -	\$ 34,211,014
			11,994,014	119,874,590		134,496,708
						12,687
						181,873
						354,376
						587,534
						961,979
			1,116,305			1,212,295
				480,698		480,698
						20,290,741
						1,038,438
						397,716
					43,850,000	43,850,000
<u>\$ 101,843</u>	<u>\$ 124,973</u>	<u>\$ 41,481</u>	<u>\$ 20,567,304</u>	<u>\$ 121,442,617</u>	<u>\$ 43,850,000</u>	<u>\$ 238,076,059</u>
\$ -	\$ 5,820	\$ 6,352	\$ 5,761	\$ -	\$ -	\$ 1,498,688
767	2,893	4,833				2,916,692
						1,286,609
						123,000
						4,926
				2,466,080		24,787,260
					1,000,000	1,000,000
					6,200,000	6,200,000
						1,530,626
					36,650,000	36,650,000
<u>767</u>	<u>8,713</u>	<u>11,185</u>	<u>5,761</u>	<u>2,466,080</u>	<u>43,850,000</u>	<u>75,997,801</u>
101,076	116,260	30,296				5,345,486
						1,805,466
						1,038,438
			4,002,872			4,002,872
			8,346,618			8,346,618
				118,976,537		118,976,537
						2,600,074
						1,133,175
						2,628,104
			8,212,053			16,201,488
<u>101,076</u>	<u>116,260</u>	<u>30,296</u>	<u>20,561,543</u>	<u>118,976,537</u>	<u>-</u>	<u>162,078,258</u>
<u>\$ 101,843</u>	<u>\$ 124,973</u>	<u>\$ 41,481</u>	<u>\$ 20,567,304</u>	<u>\$ 121,442,617</u>	<u>\$ 43,850,000</u>	<u>\$ 238,076,059</u>

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

FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trusts	
REVENUES:					
Real estate and personal property taxes, net of reserve for abatements	\$ 55,589,894	\$ -	\$ -	\$ -	\$ 55,589,894
Excise taxes	3,832,194				3,832,194
Intergovernmental	24,210,414	5,204,554			29,414,968
Departmental and other	2,830,006	2,789,382			5,619,388
Investment income (loss)	1,470,067	39,791	278,259	(776,775)	1,011,342
Contributions				2,499,450	2,499,450
TOTAL REVENUES	87,932,575	8,033,727	278,259	1,722,675	97,967,236
EXPENDITURES:					
Current:					
General government	4,377,990		413,794		4,791,784
Public safety	10,262,702	155,014	339,609		10,757,325
Education	31,118,416	3,694,854	6,342,911	317,828	41,474,009
Public works	8,408,877	494,653	412,166	34,111	9,349,807
Planning and community development	491,619	2,543,202			3,034,821
Human services	544,594	171,968	1,698	286,257	1,004,517
Library	1,444,114	86,522	81,043	118,139	1,729,818
Property and natural resources	404,858	371,799	192,748		969,405
Pensions	10,961,835				10,961,835
Employee benefits	7,679,766				7,679,766
State and county charges	3,025,370				3,025,370
Debt service:					
Principal	3,195,000				3,195,000
Interest	2,005,080				2,005,080
TOTAL EXPENDITURES	83,920,221	7,518,012	7,783,969	756,335	99,978,537
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,012,354	515,715	(7,505,710)	966,340	(2,011,301)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	906,168	4,105	838,952	75,034	1,824,259
Operating transfers out	(4,808,448)	(92,000)	(168,270)	(692,898)	(5,761,616)
TOTAL OTHER FINANCING SOURCES (USES)	(3,902,280)	(87,895)	670,682	(617,864)	(3,937,357)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	110,074	427,820	(6,835,028)	348,476	(5,948,658)
FUND BALANCES AT BEGINNING OF YEAR	13,103,858	3,543,868	6,844,100	16,210,195	39,702,021
FUND BALANCES AT END OF YEAR	\$ 13,213,932	\$ 3,971,688	\$ 9,072	\$ 16,558,671	\$ 33,753,363

See notes to general purpose financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2001

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
Real estate and personal property taxes, net of reserve for abatements	\$ 54,817,039	\$ 54,962,391	\$ 145,352
Excise taxes	2,822,838	3,832,194	1,009,356
Intergovernmental	17,935,691	18,512,674	576,983
Departmental and other	2,205,463	2,830,006	624,543
Investment income	796,364	1,260,245	463,881
TOTAL REVENUES	78,577,395	81,397,510	2,820,115
EXPENDITURES:			
Current:			
General government	4,966,663	4,674,990	291,673
Public safety	9,919,473	9,911,286	8,187
Education	30,977,303	30,977,303	-
Public works	7,756,840	8,076,452	(319,612)
Planning and community development	486,185	483,946	2,239
Human services	564,644	540,378	24,266
Library	1,456,108	1,414,392	41,716
Property and natural resources	377,701	358,472	19,229
Pensions	5,261,917	5,255,462	6,455
Employee benefits	7,387,560	7,404,306	(16,746)
State and county charges	3,044,704	3,025,370	19,334
Debt service:			
Principal	3,195,000	3,195,000	-
Interest	2,011,857	2,002,207	9,650
TOTAL EXPENDITURES	77,405,955	77,319,564	86,391
EXCESS OF REVENUES OVER EXPENDITURES	1,171,440	4,077,946	2,906,506
OTHER FINANCING SOURCES (USES):			
Overlay reversion	475,000	475,000	-
Use of unreserved fund balance	2,227,548	2,227,548	-
Operating transfers in	906,168	906,168	-
Operating transfers out	(4,780,156)	(4,780,156)	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,171,440)	(1,171,440)	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	\$ -	\$ 2,906,506	\$ 2,906,506

See notes to general purpose financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
<u>OPERATING REVENUES:</u>			
Charges for services	\$ 6,531,684	\$ 12,945	\$ 12,707
Contributions			
Intergovernmental		91,192	67,850
TOTAL OPERATING REVENUES	6,531,684	104,137	80,557
<u>OPERATING EXPENSES:</u>			
Cost of service and administration	10,726,782	340,913	61,250
OPERATING INCOME (LOSS)	(4,195,098)	(236,776)	19,307
<u>NONOPERATING REVENUE:</u>			
Investment income	16,010		
NET INCOME (LOSS) BEFORE TRANSFERS	(4,179,088)	(236,776)	19,307
<u>TRANSFERS:</u>			
Operating transfers in	3,677,690	258,718	
Operating transfers out		(2,000)	
TOTAL TRANSFERS	3,677,690	256,718	-
NET INCOME (LOSS)	(501,398)	19,942	19,307
FUND EQUITY AT BEGINNING OF YEAR	5,602,064	(22,754)	81,769
FUND EQUITY AT END OF YEAR	\$ 5,100,666	\$ (2,812)	\$ 101,076

See notes to general purpose financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
Veterans' Rink Enterprise	Recreation Enterprise	Non-expendable Trusts	
\$ 311,060	\$ 276,495	\$ -	\$ 7,144,891
		59,328	59,328
			159,042
<u>311,060</u>	<u>276,495</u>	<u>59,328</u>	<u>7,363,261</u>
<u>301,517</u>	<u>260,571</u>		<u>11,691,033</u>
9,543	15,924	59,328	(4,327,772)
			16,010
9,543	15,924	59,328	(4,311,762)
2,325	624		3,939,357
			(2,000)
<u>2,325</u>	<u>624</u>	<u>-</u>	<u>3,937,357</u>
11,868	16,548	59,328	(374,405)
<u>104,392</u>	<u>13,748</u>	<u>3,943,544</u>	<u>9,722,763</u>
<u>\$ 116,260</u>	<u>\$ 30,296</u>	<u>\$ 4,002,872</u>	<u>\$ 9,348,358</u>

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

FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types	
	Water and Sewer Enterprise	Youth Services Enterprise
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ (4,195,098)	\$ (236,776)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Change in assets and liabilities:		
Warrants payable	(186,364)	
Accrued payroll	(990)	435
Due to other funds		(17,099)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(4,382,452)	(253,440)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases, sales and maturities of investments, net		
Investment income	16,010	
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	16,010	-
<u>CASH FLOWS (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Payments on notes payable	(191,312)	-
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</u>		
Operating transfers in	3,677,690	258,718
Operating transfers out		(2,000)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	3,677,690	256,718
NET INCREASE (DECREASE) IN CASH	(880,064)	3,278
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	6,384,496	-
CASH AND SHORT TERM INVESTMENTS AT END OF YEAR	\$ 5,504,432	\$ 3,278
<u>RECONCILIATION TO COMBINED BALANCE SHEET:</u>		
Cash and short term investments at end of year	\$ 5,504,432	\$ 3,278
Cash and short term investments at end of year, Expendable Trust and Agency funds		
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR PER THE COMBINED BALANCE SHEET	\$ 5,504,432	\$ 3,278

See notes to general purpose financial statements.

Proprietary Fund Types			Fiduciary Fund Type	
Council On Aging Enterprise	Veterans' Rink Enterprise	Recreation Enterprise	Non- expendable Trusts	Total (Memorandum Only)
\$ 19,307	\$ 9,543	\$ 15,924	\$ 59,328	\$ (4,327,772)
	(5,145)	6,352		(185,157)
149	139	(2,578)		(2,845)
				(17,099)
<u>19,456</u>	<u>4,537</u>	<u>19,698</u>	<u>59,328</u>	<u>(4,532,873)</u>
			(59,328)	(59,328)
				16,010
			(59,328)	(43,318)
				(191,312)
	2,325	624		3,939,357
				(2,000)
	2,325	624		3,937,357
19,456	6,862	20,322	-	(830,146)
<u>82,387</u>	<u>118,111</u>	<u>21,159</u>	<u>-</u>	<u>6,606,153</u>
<u>\$ 101,843</u>	<u>\$ 124,973</u>	<u>\$ 41,481</u>	<u>\$ -</u>	<u>\$ 5,776,007</u>
\$ 101,843	\$ 124,973	\$ 41,481	\$ -	\$ 5,776,007
			7,456,985	7,456,985
<u>\$ 101,843</u>	<u>\$ 124,973</u>	<u>\$ 41,481</u>	<u>\$ 7,456,985</u>	<u>\$ 13,232,992</u>

PENSION TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR EMPLOYEES' PENSION BENEFITS

FISCAL YEAR ENDED DECEMBER 31, 2000

ADDITIONS:

Employer contributions	\$	5,211,513
Employee contributions		<u>1,767,770</u>
Total contributions		<u>6,979,283</u>
Net investment income (loss):		
Net depreciation in fair value of investments		(6,201,057)
Interest and dividends		<u>2,872,402</u>
Net investment income (loss)		<u>(3,328,655)</u>
Intergovernmental		722,648
Transfers from other systems		<u>157,139</u>
Total additions		<u>4,530,415</u>

DEDUCTIONS:

Administration		441,479
Retirement benefits and refunds		9,933,354
Transfers to other systems		<u>297,724</u>
Total deductions		<u>10,672,557</u>

Net (decrease) (6,142,142)

Net assets available for employees' pension benefits at beginning of year
(fund balance reserved for employees' pension benefits) 125,118,679

Net assets available for employees' pension benefits at end of year
(fund balance reserved for employees' pension benefits) \$ 118,976,537

See notes to general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town is a municipal corporation governed by "The Town Manager Act of the Town of Arlington, Massachusetts", the "By-Laws of the Town of Arlington", and Massachusetts General Laws Chapter 43A, "Standard Form of Representative Town Meeting Government". The executive branch is made up of a five-member Board of Selectmen elected at large. The Board hires a professional manager to administer the daily operations of the government. The legislative branch is a Town Meeting made up of approximately 252 representatives, elected from each of the twenty-one precincts in the Town. Arlington is also a member of the 7th Massachusetts Congressional District, 4th Middlesex State Senatorial District, and the 25th and 26th Middlesex State Representative Districts. For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions.

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

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

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

Joint Ventures - The Town is a member of the North East Solid Waste Committee (NESWC), a joint venture with 23 communities organized to represent its members in all matters related with solid waste disposal at a regional waste-to-energy facility located in North Andover, Massachusetts. In accordance with a depository agreement, NESWC was granted control over various funds received from contract communities. As of June 30, 2001, the Town's equity interest in the operation of NESWC is approximately \$1,112,000, which is recorded as a receivable in the Tip Fee Stabilization Fund (Expendable Trust Fund). Complete financial statements for NESWC can be obtained directly from their administrative office located at 530 Atlantic Avenue, Boston, Massachusetts 02110.

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

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

The Town has the following fund types and account group:

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

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

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

Governmental funds include the following fund types:

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

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

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

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

The *Enterprise Funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Town has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Enterprise Funds are used to

account for the Town's Water and Sewer, Youth Services, Council on Aging, Veteran's Rink and Recreation activities.

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

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

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

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

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

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

C. Cash and Investments

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

Investments are carried at fair value.

D. Property Taxes

Property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Tax liens are processed during the fourth quarter of every fiscal year on delinquent properties. Property taxes levied are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

E. Inventories

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

F. Fixed Assets

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

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

G. Interfund/Intrafund Transactions

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

H. Fund Equity

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

Fund balances have been "reserved for" the following:

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

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

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

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

"Employees' pension benefits," represents the net assets available to the System's participants that cannot be used for any other purpose.

Fund balances have been "designated for" the following:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2002 operating budget.

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

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

I. Long-Term Debt

Long-term financing related to governmental funds is recorded in the General Long-Term Obligations Account

Group. Principal and interest expenditures on long-term debt are recorded in the General Fund.

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

J. Investment Income

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

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

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

K. Compensated Absences

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

L. Post Retirement Benefits

In addition to providing pension benefits, the Town provides health insurance coverage for retired employees and their survivors. The Town recognizes the cost of providing health insurance by recording its share of insurance premiums in the General Fund in the fiscal year paid. For the fiscal year ended June 30, 2001, this expenditure totaled approximately \$2,488,000. This expenditure funded approximately 970 health plans.

M. Use of Estimates

The preparation of the general purpose financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

N. Total Column (Memorandum Only)

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the Town to adopt a balanced budget that is approved by the Finance Committee (Committee). The Committee presents an annual budget to the representative town meeting, which includes

estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Town, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote at the Annual Town Meeting. Changes subsequent to the approved annual budget require majority vote at a special town meeting.

The majority of the Town’s appropriations are non-continuing, which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

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

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2001 approved budget for the General Fund authorized approximately \$82,086,000 in appropriations and other amounts to be raised. During fiscal year 2001, Town Meeting approved supplemental appropriations totaling \$100,000.

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

Accounting principles followed for purposes of preparing general purpose financial statements on a budgetary basis differ from those used to present general purpose financial statements in conformity with GAAP. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2001, is presented as follows:

Excess of revenues and other financing sources (uses) over expenditures – budgetary basis.....	\$2,906,506
 <u>Perspective difference:</u>	
Activity of health insurance and municipal building insurance trust recorded in the general fund for GAAP....	(1,018,944)
 <u>Basis of accounting differences:</u>	
Net increase in revenues.....	6,325,243
Overlay reversion.....	(475,000)
Use of unreserved fund balance.....	(2,227,548)
Net increase in recording expenditures, encumbrances and continuing appropriations.....	<u>(5,400,183)</u>
 Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	 <u>\$ 110,074</u>

C. Appropriation Deficits

During fiscal year 2001, expenditures exceeded budgeted appropriations for public works and employee benefits. These deficits will be funded through the tax levy in fiscal year 2002.

D. Individual Fund Deficits

There are several individual fund deficits within the Special Revenue and Capital Projects Funds. These deficits will be funded by grant proceeds and other available funds.

At June 30, 2001, the Youth Services Enterprise Fund had a deficit of (\$2,812). This deficit will be funded through future available funds.

NOTE 3 - CASH AND INVESTMENTS

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

At fiscal year end, the carrying amount of the Town's deposits totaled \$3,267,957 and the bank balance totaled \$4,683,488. Of the bank balance, \$315,731 was covered by federal depository insurance, \$3,137,917 was covered by the depositors insurance fund, \$1,122,194 was collateralized by government securities and \$107,646 was uninsured and uncollateralized.

The June 30, 2001, carrying value of the Town's deposits consisted of the following:

Checking, savings and NOW accounts.....	\$1,190,743
Certificates of deposit.....	40,585
Money market deposits.....	<u>2,036,629</u>
Carrying amount of cash.....	<u>\$3,267,957</u>

At December 31, 2000, the carrying amount of the System's deposits totaled \$1,087,329 and the bank balance of \$1,383,392 was covered by federal depository insurance.

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

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

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

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

Investments for the Town as of June 30, 2001, are summarized as follows:

Investments subject to categorization (category three):

Equity securities..... \$ 14,622,118

Investments not subject to categorization:

Money Market Investments..... 205,648
 MMDT..... 29,650,080

Total Investments..... \$ 44,477,846

Investments for the System as of December 31, 2000, are summarized as follows:

Investments subject to categorization (category three):

Equity Securities..... \$ 82,106,993
 Fixed Income Securities..... 37,767,597

Total Investments..... \$119,874,590

The following is a reconciliation of the Town's investments as summarized above to the balance as reported in the combined balance sheet:

Investments of the Town as summarized above..... \$ 44,477,846
 Less: Short-term investments reported on the combined
 balance sheet as cash and short-term investments..... (29,855,728)
 Investments of the Town as reported
 on the combined balance sheet..... \$14,622,118

The following is a reconciliation of the balance of cash and short-term investments of the Town at June 30, 2001:

Carrying amount of cash..... \$ 3,267,957
 Add: Short-term investments..... 29,855,728
 Cash and short-term investments of the Town
 as reported on the combined balance sheet..... \$ 33,123,685

NOTE 4 - PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Arlington Contributory Retirement Board (Board). Substantially all employees are members of the System except for public school teachers and certain administrators who are members of the Commonwealth of Massachusetts' Teachers Contributory Retirement System to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are funded by the Commonwealth of Massachusetts (the Commonwealth). The amount of these on-behalf payments totaled approximately \$5,697,000 for the fiscal year ended June 30, 2001, and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Pension Expenditures.

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

At January 1, 2000, the System's membership consisted of the following:

Active members.....	701
Retirees and beneficiaries currently receiving benefits.....	587
Inactive members.....	<u>102</u>
 Total.....	 <u>1,390</u>

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

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2001, 2000 and 1999 were \$4,932,159, \$4,909,286 and \$4,832,996 respectively, which equaled its required contribution for each fiscal year. At June 30, 2001, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.0% investment rate of return and a 5.0% rate of salary increase per year. The actuarial value of the Plan's assets was determined using the fair value of the assets. The system's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2000, was 12 years.

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value Of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage Of Covered Payroll ((B-A)/C)
1/1/00	\$115,600	\$143,300	\$27,700	80.67%	\$21,242	130%
1/1/99	106,200	136,100	29,900	78.03	20,781	144
1/1/98	96,300	127,100	30,800	75.77	19,834	155
1/1/96	72,300	111,700	39,400	64.73	18,215	216
1/1/95	57,000	93,900	36,900	60.70	13,600	271
1/1/94	58,700	100,900	42,200	58.18	13,500	313

Non-contributory Retirement Allowance - The Town pays the entire retirement allowance for certain retirees who are eligible for non-contributory benefits and are not members of the System. The general fund expenditure for fiscal year 2001 totaled approximately \$429,000.

NOTE 5 - SHORT-TERM FINANCING

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

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

Short-term loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures/expenses for short-term borrowings are accounted for in the General Fund and Enterprise Funds, respectively.

As of June 30, 2001, the Town had one BAN outstanding for various capital projects in the amount of \$1,148,000 with an interest rate of 3.75% maturing on August 2, 2001. On August 2, 2001, the Town re-issued the BAN for the same amount and at the same rate maturing on October 2, 2001.

NOTE 6 - LONG-TERM DEBT

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the Town's outstanding indebtedness related to the governmental fund types at June 30, 2001 are as follows:

Bonds Payable Schedule - Governmental Funds

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2000</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2001</u>
Municipal Purpose Bond 1992	4.70	\$ 1,235,000	\$ -	\$ 450,000	\$ 785,000
Municipal Purpose Bond 1993	3.59	545,000	-	150,000	395,000
Municipal Purpose Bond 1996	4.33	1,605,000	-	285,000	1,320,000
Municipal Purpose Bond 1996	5.16	5,635,000	-	340,000	5,295,000
Municipal Purpose Bond 1996	5.22	4,675,000	-	275,000	4,400,000
Municipal Purpose Bond 2000	4.0 to 6.0	17,680,000	-	1,125,000	16,555,000
Municipal Purpose Bond 2001	5.11	<u>8,470,000</u>	<u>-</u>	<u>570,000</u>	<u>7,900,000</u>
Total.....		<u>\$39,845,000</u>	<u>\$ -</u>	<u>\$3,195,000</u>	<u>\$36,650,000</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002.....	\$ 3,175,000	\$ 1,705,679	\$ 4,880,679
2003.....	2,995,000	1,560,646	4,555,646
2004.....	2,635,000	1,436,325	4,071,325
2005.....	2,520,000	1,322,615	3,842,615
2006.....	2,430,000	1,213,658	3,643,658
Thereafter.....	<u>22,895,000</u>	<u>6,833,016</u>	<u>29,728,016</u>
Total future debt obligations....	<u>\$36,650,000</u>	<u>\$14,071,939</u>	<u>\$50,721,939</u>

Notes Payable Schedule - Water and Sewer Enterprise Fund

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2000</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2001</u>
Sewer Note – MWRA	* 0.00	\$ 90,450	\$ -	\$ 30,150	\$ 60,300
Water Note – MWRA	* 0.00	232,748	-	77,582	155,166
Sewer Note – MWRA	* 0.00	<u>250,740</u>	<u>-</u>	<u>83,580</u>	<u>167,160</u>
Total.....		<u>\$573,938</u>	<u>\$ -</u>	<u>\$191,312</u>	<u>\$382,626</u>

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002.....	\$191,313	\$ -	\$191,313
2003.....	<u>191,313</u>	<u>-</u>	<u>191,313</u>
Total.....	<u>\$382,626</u>	<u>\$ -</u>	<u>\$382,626</u>

The Commonwealth of Massachusetts has approved construction assistance to the Town. The assistance program provides resources for future debt service of general obligation school bonds outstanding. These resources are subject to the Town's compliance with certain reporting requirements. During fiscal year 2001, the Town received \$1,356,338 of such assistance. Approximately \$22,395,000 will be received in future fiscal years.

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, 2001, the Town has the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
School construction.....	\$21,692,000
Reeds Brook project.....	4,340,000
Capital equipment.....	3,853,519
Sewer and water facilities.....	<u>1,342,787</u>
	<u>\$31,228,306</u>

General Long-Term Obligations Account Group

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

During the fiscal year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group.

	<u>Balance July 1, 2000</u>	<u>Bonds and Notes Redeemed</u>	<u>Other Net Increase (Decrease)</u>	<u>Balance June 30, 2001</u>
Long-Term Bonds and Notes.....	\$39,845,000	(\$3,195,000)	\$ -	\$36,650,000
Workers' Compensation.....	1,000,000	-	-	1,000,000
Compensated Absences.....	<u>6,500,000</u>	<u>-</u>	<u>(300,000)</u>	<u>6,200,000</u>
Total.....	<u>\$47,345,000</u>	<u>(\$3,195,000)</u>	<u>(\$300,000)</u>	<u>\$43,850,000</u>

NOTE 7 - STABILIZATION FUND

The Town has \$2,462,138 in a Stabilization Fund classified in the Expendable Trust Funds at June 30, 2001. During fiscal year 2001, the fund had a net increase of \$100,468 through investment income. The Stabilization Fund may be used for general and/or capital purposes upon Town Meeting approval.

NOTE 8 - TIP FEE STABILIZATION FUND

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

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

The Town has \$5,884,480 in the Tip Fee Stabilization Fund at June 30, 2001, which is recorded in the expendable trust funds. The activity of the fund in fiscal year 2001 consists of the following:

Fund balance at June 30, 2000.....	\$4,222,588
Proceeds from the sale of excess tonnage capacity, recycled materials, disposal of solid waste and other revenues from NESWC.....	2,267,921
Investment income.....	232,425
Payment to NESWC for waste disposal.....	(282,794)
Transfer to the General Fund.....	(555,660)
Fund balance at June 30, 2001.....	<u>\$5,884,480</u>

NOTE 9 - RISK FINANCING

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

Employee Benefits

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

The Town estimates it’s Incurred But Not Reported (IBNR) health claims liability based on two-month claims paid

average for the six months prior to fiscal year-end. At June 30, 2001, the amount of the liability for health insurance claims totaled \$965,000. This liability is the Town's best estimate based on available information. Changes in the reported liability since July 1, 1999, 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 2000	\$530,000	\$6,737,487	(\$6,367,487)	\$900,000
Fiscal Year 2001	900,000	5,946,526	(5,881,526)	965,000

In fiscal year ended June 30, 2001, the Town established a Retiree Healthcare Trust Fund. The intention is to appropriate money into the fund each year to stabilize future costs for the healthcare of retirees. The Town has approximately \$79,000 in the fund at June 30, 2001 reported with expendable trust funds.

Workers' Compensation

Workers' compensation claims are funded on a pay-as-you-go basis from annual appropriations. The City estimates its future workers' compensation liability based on history and injury type. At June 30, 2001, the amount of the liability for workers' compensation claims totaled \$1,000,000.

The Town's IBNR claims for municipal insurance are not material at June 30, 2001, and therefore are not reported.

NOTE 10 - COMMITMENTS

Under the terms of an agreement with the State Department of Environmental Management and Wheelabrator North Andover Incorporated (WNAI), the Town is unconditionally obligated to make certain payments for its portion of the costs of using a resource recovery plant based on its projected minimum tonnage of solid waste to be disposed of at the plant. The cost to the Town under the agreement was approximately \$2,930,000 in fiscal year 2001. The facility was financed by the issuance of bonds in the amount of approximately \$197,000,000. In the event of a facility failure, under circumstances in which the WNAI is not required or is unable to pay damages, the Town's indirect share of the bonds, based on the aggregate projected minimum disposal tonnage of all participating communities, would be approximately 12% of the total.

The Town has various commitments and obligations in connection with constructing, remodeling, reconstructing, and making extraordinary repairs to the Bishop, Hardy, and Bracket schools. The projects are estimated to cost \$22,910,000. As of June 30, 2001, approximately \$6,419,000 has been spent on these projects. The Town anticipates completing these projects in fiscal year 2002 and funding them through long-term borrowing. The Commonwealth has approved construction assistance of approximately 63% of the total cost of the projects, which will consist of annual reimbursements of principal and interest payments on the long-term debt associated with the project.

The Town has begun preparation of plans and specifications in connection with the designs for constructing, remodeling, and reconstructing the Dallin and Pierce schools. The Town anticipates actual construction to begin in fiscal year 2002. The total estimated cost of the project is \$17,000,000.

NOTE 11 - CONTINGENCIES

The Town participates in a number of federal financial assistance programs. Although the Town grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2001, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2001, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2001.