

TOWN OF ARLINGTON, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2008

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Independent Auditors' Report

To the Board of Selectmen
Town of Arlington, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Arlington, Massachusetts, as of and for the fiscal year ended June 30, 2008 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2007), 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, 2008 (except for the Arlington Contributory Retirement System which is as of December 31, 2007), 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 18, 2008, 2008, on our consideration of the Town of Arlington, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 18, 2008

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, 2008. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Arlington adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. The budgetary comparison schedule is reported following the notes to the basic financial statements as required supplementary information.

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For governmental activities, assets exceeded liabilities by \$123.3 million at the close of FY 2008.

The largest portion of the Town's net assets, \$89.6 million, (73%), reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$10.2 million, (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$23.5 million, (19%) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

	Balance at June 30, 2008	Balance at June 30, 2007	Increase (Decrease)
Assets:			
Current assets.....	\$ 56,767,147	\$ 62,850,507	\$ (6,083,360)
Noncurrent assets (excluding capital).....	20,920,578	24,417,976	(3,497,398)
Capital assets.....	<u>117,137,287</u>	<u>116,821,063</u>	<u>316,224</u>
Total assets.....	<u>194,825,012</u>	<u>204,089,546</u>	<u>(9,264,534)</u>
Liabilities:			
Current liabilities (excluding debt).....	13,732,013	12,581,154	1,150,859
Noncurrent liabilities (excluding debt).....	2,597,274	2,359,066	238,208
Current debt.....	5,502,000	17,650,000	(12,148,000)
Noncurrent debt.....	<u>49,720,000</u>	<u>45,220,000</u>	<u>4,500,000</u>
Total liabilities.....	<u>71,551,287</u>	<u>77,810,220</u>	<u>(6,258,933)</u>
Net Assets:			
Capital assets net of related debt.....	89,599,804	85,723,664	3,876,140
Restricted.....	10,210,306	12,566,274	(2,355,968)
Unrestricted.....	<u>23,463,615</u>	<u>27,989,388</u>	<u>(4,525,773)</u>
Total net assets.....	<u>\$ 123,273,725</u>	<u>\$ 126,279,326</u>	<u>\$ (3,005,601)</u>

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

The governmental activities net assets decreased by \$3 million during the current fiscal year. This is mainly due to a decrease in the fair market value of investments of approximately \$1.6 million, and an approximately \$1 million net decrease in the operating activity of the Town's special revenue and trust funds, which represents the timing of receipts and expenditures of funds on Town programs.

Governmental Activities

	June 30, 2008	June 30, 2007
Program revenues:		
Charges for services.....	\$ 8,077,564	\$ 7,577,075
Operating grants and contributions.....	26,472,486	24,693,407
Capital grants and contributions.....	-	14,788,539
General revenues:		
Real estate and personal property taxes.....	78,126,629	76,116,694
Tax liens.....	219,611	234,052
Motor vehicle and other excise taxes.....	3,951,799	4,001,015
Hotel/motel tax.....	123,522	130,278
Penalties and interest on taxes.....	186,195	157,047
Nonrestricted grants and contributions.....	9,756,787	9,619,012
Unrestricted investment income.....	(250,463)	3,979,911
Gain on sale of capital assets.....	-	210,861
Miscellaneous revenues.....	23,969	7,710
Total revenues.....	126,688,099	141,515,601
Expenses:		
General government.....	9,674,926	9,142,084
Public safety.....	19,974,263	20,103,284
Education.....	70,688,522	68,850,003
Public works.....	9,788,561	8,554,635
Property and natural resources.....	2,624,450	2,991,773
Community and economic development.....	4,169,059	4,897,672
Human services.....	1,294,867	1,298,741
Library.....	2,916,575	2,755,489
Culture and recreation.....	216,814	284,753
Claims and judgments.....	106,500	96,000
Interest.....	2,217,666	2,075,794
Total expenses.....	123,672,203	121,050,228
Transfers.....	(6,021,497)	(5,959,403)
Change in net assets.....	\$ (3,005,601)	\$ 14,505,970

Business-Type Activities

	Balance at June 30, 2008	Balance at June 30, 2007
Assets:		
Current assets.....	\$ 9,997,123	\$ 9,400,144
Capital assets.....	<u>11,166,218</u>	<u>10,054,655</u>
Total assets.....	21,163,341	19,454,799
Liabilities:		
Current liabilities (excluding debt).....	360,124	244,403
Noncurrent liabilities (excluding debt).....	39,000	14,000
Current debt.....	624,060	553,143
Noncurrent debt.....	<u>3,412,247</u>	<u>3,681,722</u>
Total liabilities.....	4,435,431	4,493,268
Net Assets:		
Capital assets net of related debt.....	7,129,911	8,126,486
Unrestricted.....	<u>9,597,999</u>	<u>6,835,045</u>
Total net assets.....	\$ 16,727,910	\$ 14,961,531

There was a net increase of \$1.8 million in net assets reported in connection with the Town's business-type activities. Additionally, the water and sewer enterprise fund was subsidized by the general fund in fiscal year 2008 by approximately \$5.6 million to offset a portion of the costs associated with the repayment of debt to the Massachusetts Water Resources Authority. The majority of the increase (\$1.7 million) is a result of the operating activities of the water and sewer enterprise fund, which includes the subsidy from the general fund.

Business-Type Activities

	June 30, 2008	June 30, 2007
Program revenues:		
Charges for services.....	\$ 10,917,691	\$ 9,022,726
Operating grants and contributions.....	164,234	719,860
General revenues:		
Unrestricted investment income.....	<u>93,272</u>	<u>128,203</u>
Total revenues.....	11,175,197	9,870,789
Expenses:		
Water and Sewer.....	13,863,832	13,543,859
Youth Services.....	471,096	436,494
Council on Aging.....	95,907	100,437
Veterans' Rink.....	452,795	482,505
Recreation.....	<u>546,685</u>	<u>602,341</u>
Total expenses.....	15,430,315	15,165,636
Transfers.....	<u>6,021,497</u>	<u>5,959,403</u>
Change in net assets.....	\$ 1,766,379	\$ 664,556

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$39 million, an increase of \$3.3 million from the prior year. Of this increase, \$5 million was the result of the activity in the Town's capital borrowing fund, which is reported as a major fund. During fiscal year 2008, the Town recognized \$9.7 million in bond proceeds in this major fund which represents long-term borrowing used to finance various capital projects. Current expenditures in this fund totaled \$4.9 million. The largest of the current projects are related to the Park Circle fire station project and the Reeds Brook park project. These two major Town projects are more fully described under the Capital Asset and Debt Administration section of this analysis.

Of the remainder of the change in fund balance, a \$461,000 increase is in the result of operations of the general fund, and a \$2.2 million decrease relates to activities in other non-major governmental funds, which recognized \$1.3 million in transfers in, \$1.1 million in transfers out, \$12.6 million in revenues, \$15.1 million in expenditures, and \$160,000 in bond premiums. Approximately \$1.2 million of the decrease is in the Town's nonmajor special revenue funds, and includes a \$680,000 transfer from the Tip Fee Stabilization Fund, and a \$150,000 transfer from the Sale of Lots and Graves Fund, both voted to fund the operating budget. Another \$859,000 of the decrease took place in the Town's permanent funds, and includes net decreases in the value of the trust fund investments of approximately \$700,000. The remaining decrease in the nonmajor funds includes a decrease in the nonmajor capital projects of approximately \$274,000, which is the net result of capital expenditures of approximately \$1.06 million, and net transfers in from the general fund of approximately \$786,000.

The general fund budgeted to use \$1.5 million of reserves (\$955,000 in available funds "free cash" and \$500,000 in prior reserves released by the board of assessors "overlay surplus") to balance the fiscal year 2008 budget. The actual result of operations collected approximately \$800,000 more than budgeted and departmental budgets expended \$186,000 more than budgeted. Consequently, on a budgetary (cash) basis, the general fund did not experience a material increase or decrease.

The Town also maintains a stabilization fund and a tip fee stabilization fund, both classified within the nonmajor governmental funds. The stabilization fund has a year end balance of \$2.5 million which represents 2.3% of general fund expenditures. This fund may be used for general or capital purposes upon Town Meeting approval. Please refer to Note 9 for additional information on the Town's stabilization fund. The tip fee stabilization fund has a year end balance of \$3.2 million, which represents 2.9% of general fund expenditures. Please refer to Note 10 for additional information on the Town's tip fee stabilization fund.

General Fund Budgetary Highlights

Departmental and other revenues were greater than budgeted estimates by approximately \$650,000 which was mainly due to the increase in licenses, fees and fines. Investment income was below budgeted estimates by approximately \$320,000 due to the decreased rates. Public works expenditures exceeded appropriations by approximately \$544,000, due to expenditures for snow and ice removal exceeding the appropriation. The Town is

allowed to exceed the budget related to snow and ice removal and to raise the difference in the subsequent year's tax levy.

Transfers out exceeded the budget by approximately \$88,000, which reflects tax receipts for the Symmes Property, which in accordance with Chapter 25 of the Acts of 2006, is to be used to satisfy the debt service related to the acquisition of the Symmes Property. The Town did not budget for this transfer in fiscal year 2008.

Other Post Employment Benefits (OPEB)

In 2006 the Arlington Town Meeting formed the Other Post Employment Benefits Committee. The committee's charge is to make recommendations on the potential funding mechanisms for the post employment medical benefits unfunded liability as required in Statement No. 45 of the Governmental Accounting Standards Board.

An actuarial study conducted by Stone Consulting, Inc. indicated that Arlington's total Actuarial Accrued Liability as of January 1, 2008 (at 7.75% discount rate) is \$114,154,885. The Town is required to implement GASB 45 in fiscal year 2009. At the present time, there is no requirement that these liabilities be funded. However, the committee believes that it is prudent fiscal policy to begin funding as soon as possible. To that end, the committee requested the 2005 Town Meeting pass legislation which would set up a trust to hold any funding so appropriated. This legislation was enacted and signed by Governor Romney on December 8, 2005.

In 1997 the Town began capturing revenues to fund the liability. At the time, the town established a policy of appropriating the difference in the non-contributory pension appropriation and \$500,000. The balance at the end of Fiscal Year 2008 in that account is \$2,239,303. At the 2008 Annual Town Meeting an additional \$853,940 was appropriated to that fund. The Town anticipates that these funds will be used to satisfy the first year of our liability.

The committee has been looking at other potential revenue sources to continue funding our outstanding liability. The committee recommended to Town Meeting that the following sources of revenue be earmarked for that purpose:

1. Continue the practice of appropriating the difference in the non contributory pension and \$500,000.
2. Dedicate any revenue received from the Federal Government for Medicare Part "D" subsidy.
3. Dedicate any one-time revenues to this fund – If, in the future the Town has a source of funding that is unexpected and not designated for a specific purpose, the Town should consider dedicating it to this liability. An example of this is the Federal reimbursement of prescription drug costs through Medicare Part "D".
4. Determine the liability associated with the Enterprise funds and charge this amount in future appropriations.

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

Capital Asset and Debt Administration

The Town Manager is responsible for submitting a five-year capital-planning program for all departments to the Board of Selectmen each year. The Capital Planning Committee was created to advise and make recommendations regarding the Capital Plan. Annually the first year of the Capital Plan is submitted to the Town

Meeting as the Capital Budget for appropriation. The Capital Plan is reviewed and revised each year to make changes in priorities and to add an additional year to the planning process.

The goal of the Capital Planning Program is to provide a means of planning for the maintenance and/or improvement of the capital assets and infrastructure of the Town of Arlington. To that end, the policy is that approximately 5% of the projected revenue of the town is dedicated to capital expenditures including prior and future debt issuances. Generally this allows for an annual cash expenditure of \$600,000 and a new borrowing of \$1 million. The Town's outstanding long-term debt related to the general government, as of June 30, 2008, was \$48,727,000, for various CIP related projects.

The maintenance of the infrastructure and the capital assets of the Town are of vital importance to the delivery of the quality services that the Town has been known for. To this end, the Capital Planning Committee is dedicated to accomplishing the following objectives:

- To review, plan, and coordinate capital improvements so as to promote a systematic, organized replacement and acquisition schedule
- To insure that, given limited resources, the capital needs of the community are met
- To present a sound financial package so as to stabilize and level out the debt of the Town. It should assure timely planning for the most economical method of financing capital improvements
- To insure wider community participation in the planning of projects and to reduce the pressure to fund a project which may not present as great a need as another project
- To promote a more effective administration and coordination of capital projects to reduce scheduling problems, and conflicting or overlapping projects not only among local departments but also among other local and state agencies and private enterprises such as the gas and electric companies.

In reviewing the requests of the operating departments the committee uses the following criteria for evaluation:

- Imminent threat to the health and safety of citizens/property.
- Maintenance of operations/necessary expenditure. This does not include ordinary maintenance but rather maintaining a current service level through improvement of a capital asset. These may be major expenditures that will avoid costly replacement in the future.
- Requirement of State or Federal Law/regulation.
- Improvement of infrastructure.
- Improvement of productivity.
- Alleviation of an overtaxed/overburdened situation.

The relationship of the project to other Town projects and needs is also considered in the review and prioritization.

The Town is a member of the Massachusetts Water Resources Authority (MWRA), which assesses member communities annually for their proportionate share of the MWRA's debt service. The Town has also adopted Chapter 59 Section 21C Paragraph N of the Massachusetts General Law, which allows for the shifting of the debt service for water and sewer to the tax rate above the limits of Proposition 2 ½. The Town shifted \$5.6 million in fiscal year 2008 from the MWRA assessment to the property taxes. During fiscal year 2008, the Town issued an additional \$354,585 in MWRA sewer bonds.

The Town of Arlington passed a debt exclusion vote to raise the funds necessary to purchase the Symmes Site, home of the former Symmes Hospital, in March 2001. The Town Meeting then formed the broadly representative Symmes Advisory Committee (SAC) to assist with redevelopment plans and to ensure that the plans were consistent with community goals and desires. On January 7, 2002, the Arlington Redevelopment Board (ARB)

adopted the Symmes Arlington Conservation and Improvement Project (the Plan) as an urban renewal project in accordance with the procedures and requirements of Massachusetts General Law, chapter 121B. The plan was subsequently approved by the Town Meeting and by the Commonwealth's Department of Housing and Community Development (DHCD). The Town Meeting voted at a Special Town Meeting on January 12, 2002 to appropriate up to \$14,000,000 to purchase and maintain the old Symmes Hospital property until Town Meeting could vote how to utilize the property in the best interest of the Town. The ARB acquired the Site in April 2002. During fiscal year 2004, the Arlington Redevelopment Board issued requests for proposals, and in February, 2004 chose E.A. Fish Associates to purchase and redevelop the property. The terms of the sale have been amended to allow the developer to postpone closing until August, 2007. Beginning in January, 2007, the developer will pay the expenses of the Town for holding the property for the extended time period. The terms of the sale have been revised 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 closed in June 2008. Town Meeting voted to devote all funds, including tax receipts, to repaying the debt on the project. It is now projected that the indebtedness will be repaid completely in 2013. Total net expenditures are expected to be \$12.2 million at the time of closing on the property sale. The site will be redeveloped to accommodate 200 residential units and a medical office building with more than half the land area remaining in open space all according to the urban renewal plan adopted by Town Meeting. Please refer to note 14 for further information on this project.

The Town of Arlington is in the process of renovating/replacing its middle school as well as all of its 7 elementary schools. To date six schools have been completed, and two are in the design stage. Funding for the schools is from debt exclusion and is predicated on a 63% reimbursement from the State's School Building Assistance program which is administered by the Massachusetts School Building Authority (MSBA). Four of the schools have begun receiving the state reimbursement and one received the state's share of the cost subsequent to year end.

During fiscal year 2008, the Town completed construction of the Park Circle fire station. The Town expended \$2.3 million on this project.

The Reed's Brook project is a major renovation of a prior landfill site into a park and playing fields. This project, with a total cost of approximately \$7.5 million, has been funded from Community Development Block Grant, Federal Emergency Management Agency, State highway money and Town appropriations. The playing fields were opened for play in the spring of 2008.

The Town through its water/sewer enterprise funds appropriates money each year for rehabilitation of its infrastructure (water/sewer lines). Also the Town appropriates money in the Capital Plan for roadway construction, which is added to the Chapter 90 money that the Town receives each year from the Commonwealth of Massachusetts.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Arlington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Comptroller, 869 Massachusetts Avenue, Arlington, Massachusetts 02174.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 31,338,950	\$ 5,775,527	\$ 37,114,477
Investments.....	16,118,509	-	16,118,509
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	8,567	-	8,567
Real estate tax deferrals.....	75,402	-	75,402
Tax liens.....	471,583	-	471,583
Motor vehicle excise taxes.....	275,827	-	275,827
User fees.....	-	4,240,412	4,240,412
Departmental and other.....	351,183	-	351,183
Intergovernmental.....	5,437,505	-	5,437,505
Loans.....	237,867	-	237,867
Tax foreclosures.....	396,784	-	396,784
Internal balances.....	18,816	(18,816)	-
Deferred loss on refunding.....	56,549	-	56,549
Unamortized bond issue cost.....	24,753	-	24,753
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	301,605	-	301,605
Intergovernmental.....	20,920,578	-	20,920,578
Loans.....	951,466	-	951,466
Deferred loss on refunding.....	566,523	-	566,523
Unamortized bond issue cost.....	135,258	-	135,258
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	20,774,599	2,954	20,777,553
Depreciable.....	96,362,688	11,163,264	107,525,952
TOTAL ASSETS.....	194,825,012	21,163,341	215,988,353
LIABILITIES			
CURRENT:			
Warrants payable.....	2,254,503	213,344	2,467,847
Accrued payroll.....	4,123,247	51,176	4,174,423
Health claims payable.....	1,678,063	-	1,678,063
Accrued interest.....	1,035,724	34,604	1,070,328
Payroll withholdings.....	166,440	-	166,440
Abandoned property.....	46,200	-	46,200
Other liabilities.....	446,164	-	446,164
Customer deposits payable.....	4,425	-	4,425
Compensated absences.....	3,752,000	61,000	3,813,000
Workers' compensation.....	181,000	-	181,000
Unamortized premium on bonds payable.....	44,247	-	44,247
Bonds and notes payable.....	5,502,000	624,060	6,126,060
NONCURRENT:			
Compensated absences.....	1,954,000	39,000	1,993,000
Workers' compensation.....	399,000	-	399,000
Unamortized premium on bonds payable.....	244,274	-	244,274
Bonds and notes payable.....	49,720,000	3,412,247	53,132,247
TOTAL LIABILITIES.....	71,551,287	4,435,431	75,986,718
NET ASSETS			
Invested in capital assets, net of related debt.....	89,599,804	7,129,911	96,729,715
Restricted for:			
Loans.....	1,189,333	-	1,189,333
Permanent funds:			
Expendable.....	4,768,594	-	4,768,594
Nonexpendable.....	3,101,303	-	3,101,303
Gifts and grants.....	1,151,076	-	1,151,076
Unrestricted.....	23,463,615	9,597,999	33,061,614
TOTAL NET ASSETS.....	\$ 123,273,725	\$ 16,727,910	\$ 140,001,635

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
<i>Governmental Activities:</i>				
General government.....	\$ 9,674,926	\$ 1,939,783	\$ 385,218	\$ (7,349,925)
Public safety.....	19,974,263	2,866,575	404,381	(16,703,307)
Education.....	70,688,522	1,793,004	21,598,957	(47,296,561)
Public works.....	9,788,561	524,402	48,428	(9,215,731)
Property and natural resources.....	2,624,450	122,435	76,797	(2,425,218)
Community development.....	4,169,059	393,875	2,935,216	(839,968)
Human services.....	1,294,867	114,167	207,438	(973,262)
Library.....	2,916,575	5,141	121,044	(2,790,390)
Culture and recreation.....	216,814	318,182	6,435	107,803
Claims and judgments.....	106,500	-	-	(106,500)
Interest.....	2,217,666	-	688,572	(1,529,094)
Total Governmental Activities.....	123,672,203	8,077,564	26,472,486	(89,122,153)
<i>Business-Type Activities:</i>				
Water/Sewer.....	13,863,832	9,806,499	-	(4,057,333)
Youth Services.....	471,096	30,033	159,234	(281,829)
Council on Aging.....	95,907	74,529	5,000	(16,378)
Veterans' Rink.....	452,795	463,373	-	10,578
Recreation.....	546,685	543,257	-	(3,428)
Total Business-Type Activities.....	15,430,315	10,917,691	164,234	(4,348,390)
Total Primary Government.....	\$ 139,102,518	\$ 18,995,255	\$ 26,636,720	\$ (93,470,543)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (89,122,153)	\$ (4,348,390)	\$ (93,470,543)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	78,126,629	-	78,126,629
Tax liens.....	219,611	-	219,611
Motor vehicle excise taxes.....	3,951,799	-	3,951,799
Hotel/motel tax.....	123,522	-	123,522
Penalties and interest on taxes.....	186,195	-	186,195
Grants and contributions not restricted to specific programs.....	9,756,787	-	9,756,787
Unrestricted investment income.....	(250,463)	93,272	(157,191)
Gain on sale of capital assets.....	-	-	-
Miscellaneous.....	23,969	-	23,969
<i>Transfers, net</i>	<u>(6,021,497)</u>	<u>6,021,497</u>	<u>-</u>
Total general revenues and transfers.....	<u>86,116,552</u>	<u>6,114,769</u>	<u>92,231,321</u>
Change in net assets.....	(3,005,601)	1,766,379	(1,239,222)
<i>Net Assets:</i>			
Beginning of year.....	<u>126,279,326</u>	<u>14,961,531</u>	<u>141,240,857</u>
End of year.....	\$ <u><u>123,273,725</u></u>	\$ <u><u>16,727,910</u></u>	\$ <u><u>140,001,635</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2008

ASSETS	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 15,085,143	\$ 4,826,155	\$ 11,427,652	\$ 31,338,950
Investments.....	2,962,617	-	13,155,892	16,118,509
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	8,567	-	-	8,567
Real estate tax deferrals.....	377,007	-	-	377,007
Tax liens.....	471,583	-	-	471,583
Motor vehicle excise taxes.....	275,827	-	-	275,827
Departmental and other.....	351,183	-	-	351,183
Intergovernmental.....	22,872,918	-	3,485,165	26,358,083
Loans.....	-	-	1,189,333	1,189,333
Tax foreclosures.....	396,784	-	-	396,784
Due from other funds.....	18,816	-	-	18,816
TOTAL ASSETS.....	\$ 42,820,445	\$ 4,826,155	\$ 29,258,042	\$ 76,904,642
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 1,555,147	\$ 596,240	\$ 103,116	\$ 2,254,503
Accrued payroll.....	4,080,312	-	42,935	4,123,247
Health claims payable.....	1,678,063	-	-	1,678,063
Accrued interest on short-term debt.....	-	328,408	-	328,408
Liabilities due depositors.....	4,425	-	-	4,425
Payroll withholdings.....	166,440	-	-	166,440
Abandoned property.....	46,200	-	-	46,200
Other liabilities.....	446,164	-	-	446,164
Deferred revenues.....	24,561,314	-	4,315,763	28,877,077
TOTAL LIABILITIES.....	32,538,065	924,648	4,461,814	37,924,527
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	2,393,731	-	-	2,393,731
Perpetual permanent funds.....	-	-	3,101,303	3,101,303
Unreserved:				
Designated for municipal insurance.....	3,058,266	-	-	3,058,266
Designated for subsequent year's expenditures.....	2,191,622	-	-	2,191,622
Undesignated, reported in:				
General fund.....	2,638,761	-	-	2,638,761
Special revenue funds.....	-	-	16,310,165	16,310,165
Capital projects funds.....	-	3,901,507	616,166	4,517,673
Permanent funds.....	-	-	4,768,594	4,768,594
TOTAL FUND BALANCES.....	10,282,380	3,901,507	24,796,228	38,980,115
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 42,820,445	\$ 4,826,155	\$ 29,258,042	\$ 76,904,642

See notes to basic financial statements.

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

JUNE 30, 2008

Total governmental fund balances.....		\$ 38,980,115
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		117,137,287
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		28,877,077
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(707,316)
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.....	(55,222,000)	
Unamortized bond issue costs.....	160,011	
Unamortized premium on bonds payable.....	(288,521)	
Workers compensation.....	(580,000)	
Compensated absences.....	<u>(5,706,000)</u>	
Net effect of reporting long-term liabilities.....		(61,636,510)
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>623,072</u>
Net assets of governmental activities.....		<u>\$ 123,273,725</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 78,008,137	\$ -	\$ -	\$ 78,008,137
Tax liens.....	171,278	-	-	171,278
Motor vehicle excise taxes.....	3,951,799	-	-	3,951,799
Hotel/motel tax.....	123,522	-	-	123,522
Fees and rentals.....	-	-	73,291	73,291
Intergovernmental.....	28,981,298	-	7,455,717	36,437,015
Departmental and other.....	3,918,734	84,457	5,703,256	9,706,447
Contributions.....	-	-	710,213	710,213
Investment income.....	1,060,886	24,483	(1,335,832)	(250,463)
TOTAL REVENUES.....	116,215,654	108,940	12,606,645	128,931,239
EXPENDITURES:				
Current:				
General government.....	4,011,050	178,044	1,087,107	5,276,201
Public safety.....	11,861,808	1,793,170	1,344,192	14,999,170
Education.....	39,882,476	838,335	7,663,371	48,384,182
Public works.....	7,255,797	695,164	723,830	8,674,791
Property and natural resources.....	1,607,847	715,610	116,328	2,439,785
Community development.....	751,001	28,430	3,384,077	4,163,508
Human services.....	674,136	-	331,226	1,005,362
Library.....	1,851,514	-	237,306	2,088,820
Culture and recreation.....	-	296,714	209,512	506,226
Pension benefits.....	16,842,738	-	-	16,842,738
Property and liability insurance.....	288,699	-	-	288,699
Employee benefits.....	14,513,129	-	-	14,513,129
Claims and judgments.....	106,500	-	-	106,500
State and county charges.....	2,622,634	-	-	2,622,634
Debt service:				
Principal.....	5,450,000	-	-	5,450,000
Interest.....	1,946,452	328,408	-	2,274,860
TOTAL EXPENDITURES.....	109,665,781	4,873,875	15,096,949	129,636,605
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	6,549,873	(4,764,935)	(2,490,304)	(705,366)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	9,697,000	-	9,697,000
Proceeds from refunding bonds.....	11,690,000	-	-	11,690,000
Premium from issuance of bonds.....	-	-	160,288	160,288
Premium from issuance of refunding bonds.....	220,455	-	-	220,455
Bond issuance costs.....	(118,984)	-	-	(118,984)
Payments to refunded bond escrow agent.....	(11,791,471)	-	-	(11,791,471)
Transfers in.....	853,586	20,000	1,261,628	2,135,214
Transfers out.....	(6,942,809)	-	(1,093,902)	(8,036,711)
TOTAL OTHER FINANCING SOURCES (USES).....	(6,089,223)	9,717,000	328,014	3,955,791
NET CHANGE IN FUND BALANCES.....	460,650	4,952,065	(2,162,290)	3,250,425
FUND BALANCES AT BEGINNING OF YEAR.....	9,821,730	(1,050,558)	26,958,518	35,729,690
FUND BALANCES AT END OF YEAR.....	\$ 10,282,380	\$ 3,901,507	\$ 24,796,228	\$ 38,980,115

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, 2008

Net change in fund balances - total governmental funds.....		\$ 3,250,425
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	4,707,996	
Depreciation expense.....	<u>(4,391,772)</u>	
Net effect of reporting capital assets.....		316,224
<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>		
		(2,243,140)
<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.....	(9,697,000)	
Premium from issuance of bonds, net of issue costs.....	(160,288)	
Debt service principal payments.....	5,450,000	
Proceeds from refunding bonds.....	(11,690,000)	
Payments to refunded bond escrow agent.....	11,791,471	
Premium from issuance of refunding costs, net of issue costs.....	<u>(101,471)</u>	
Net effect of reporting long-term debt.....		(4,407,288)
Net change in accrued interest on long-term debt.....	57,389	
Amortization of issuance costs.....	(8,982)	
Amortization of bond premiums.....	175,189	
Amortization of deferred charge on refunding.....	<u>(47,418)</u>	
Net effect of reporting other debt related activity.....		176,178
<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.....	(171,000)	
Net change in worker's compensation accrual.....	<u>73,000</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>(98,000)</u>
Change in net assets of governmental activities.....		\$ <u><u>(3,005,601)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2008

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 5,579,967	\$ -	\$ 44,250
Receivables, net of allowance for uncollectibles:			
User fees.....	4,240,412	-	-
Total current assets.....	<u>9,820,379</u>	<u>-</u>	<u>44,250</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	2,954	-	-
Depreciable.....	10,985,678	-	11,917
Total noncurrent assets.....	<u>10,988,632</u>	<u>-</u>	<u>11,917</u>
TOTAL ASSETS.....	<u>20,809,011</u>	<u>-</u>	<u>56,167</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	208,011	-	573
Accrued payroll.....	18,276	9,534	2,209
Accrued interest.....	34,604	-	-
Due to other funds.....	-	18,816	-
Compensated absences.....	61,000	-	-
Bonds and notes payable.....	624,060	-	-
Total current liabilities.....	<u>945,951</u>	<u>28,350</u>	<u>2,782</u>
NONCURRENT:			
Compensated absences.....	39,000	-	-
Bonds and notes payable.....	3,412,247	-	-
Total noncurrent liabilities.....	<u>3,451,247</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>4,397,198</u>	<u>28,350</u>	<u>2,782</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	6,952,325	-	11,917
Unrestricted.....	9,459,488	(28,350)	41,468
TOTAL NET ASSETS.....	<u>\$ 16,411,813</u>	<u>\$ (28,350)</u>	<u>\$ 53,385</u>

See notes to basic financial statements.

	Veterans' Rink Enterprise	Recreation Enterprise	Total
\$	50,198	\$ 101,112	\$ 5,775,527
	-	-	4,240,412
	50,198	101,112	10,015,939
	-	-	2,954
	164,298	1,371	11,163,264
	164,298	1,371	11,166,218
	214,496	102,483	21,182,157
	3,277	1,483	213,344
	4,504	16,653	51,176
	-	-	34,604
	-	-	18,816
	-	-	61,000
	-	-	624,060
	7,781	18,136	1,003,000
	-	-	39,000
	-	-	3,412,247
	-	-	3,451,247
	7,781	18,136	4,454,247
	164,298	1,371	7,129,911
	42,417	82,976	9,597,999
\$	<u>206,715</u>	<u>\$ 84,347</u>	<u>\$ 16,727,910</u>

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

FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
OPERATING REVENUES:			
Charges for services	\$ 9,806,499	\$ 30,033	\$ 79,529
OPERATING EXPENSES:			
Salaries and wages.....	1,592,634	416,649	73,331
Cost of services and administration	827,428	54,447	18,896
MWRA Assessment.....	10,018,988	-	-
Depreciation.....	306,333	-	3,180
Employee benefits	1,047,447	-	500
TOTAL OPERATING EXPENSES	13,792,830	471,096	95,907
OPERATING INCOME (LOSS).....	(3,986,331)	(441,063)	(16,378)
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	93,272	-	-
Interest expense.....	(71,002)	-	-
Intergovernmental.....	-	149,234	-
Contributions.....	-	10,000	-
TOTAL NONOPERATING REVENUES, (EXPENSES), NET.....	22,270	159,234	-
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS.....	(3,964,061)	(281,829)	(16,378)
CAPITAL CONTRIBUTIONS.....	-	-	-
TRANSFERS:			
Transfers in.....	5,626,897	231,124	20,633
CHANGE IN NET ASSETS.....	1,662,836	(50,705)	4,255
NET ASSETS AT BEGINNING OF YEAR.....	14,748,977	22,355	49,130
NET ASSETS AT END OF YEAR.....	\$ 16,411,813	\$ (28,350)	\$ 53,385

See notes to basic financial statements.

	Veterans' Rink Enterprise	Recreation Enterprise	Total
\$	463,373	\$ 543,257	\$ 10,922,691
	204,772	301,906	2,589,292
	237,440	242,035	1,380,246
	-	-	10,018,988
	10,583	2,744	322,840
	-	-	1,047,947
	452,795	546,685	15,359,313
	10,578	(3,428)	(4,436,622)
	-	-	93,272
	-	-	(71,002)
	-	-	149,234
	-	-	10,000
	-	-	181,504
	10,578	(3,428)	(4,255,118)
	120,000	-	120,000
	12,608	10,235	5,901,497
	143,186	6,807	1,766,379
	63,529	77,540	14,961,531
\$	<u>206,715</u>	<u>\$ 84,347</u>	<u>\$ 16,727,910</u>

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users.....	\$ 9,447,663	\$ 30,033	\$ 79,529
Payments to vendors.....	(11,781,614)	(54,591)	(18,823)
Payments to employees.....	(1,568,723)	(412,471)	(72,366)
NET CASH FROM OPERATING ACTIVITIES.....	(3,902,674)	(437,029)	(11,660)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in.....	5,626,897	231,124	20,633
Contributions.....	-	10,000	-
Advances from (to) other funds.....	-	18,816	-
Intergovernmental subsidy.....	-	149,234	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	5,626,897	409,174	20,633
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the issuance of bonds and notes.....	354,585	-	-
Capital contributions.....	-	-	-
Acquisition and construction of capital assets.....	(1,311,334)	-	-
Principal payments on bonds and notes.....	(553,143)	-	-
Interest expense.....	(81,000)	-	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(1,590,892)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income.....	93,272	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	226,603	(27,855)	8,973
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	5,353,364	27,855	35,277
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 5,579,967	\$ -	\$ 44,250
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH			
FROM OPERATING ACTIVITIES:			
Operating income (loss).....	\$ (3,986,331)	\$ (441,063)	\$ (16,378)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	306,333	-	3,180
Changes in assets and liabilities:			
User fees.....	(358,836)	-	-
Warrants payable.....	112,249	(144)	573
Accrued payroll.....	6,911	4,178	965
Accrued compensated absences.....	17,000	-	-
Total adjustments.....	83,657	4,034	4,718
NET CASH FROM OPERATING ACTIVITIES.....	\$ (3,902,674)	\$ (437,029)	\$ (11,660)

See notes to basic financial statements.

	Veterans' Rink Enterprise	Recreation Enterprise	Total
\$	463,373	\$ 543,257	\$ 10,563,855
	(236,345)	(243,027)	(12,334,400)
	<u>(203,272)</u>	<u>(294,522)</u>	<u>(2,551,354)</u>
	<u>23,756</u>	<u>5,708</u>	<u>(4,321,899)</u>
	12,608	10,235	5,901,497
	-	-	10,000
	-	-	18,816
	<u>-</u>	<u>-</u>	<u>149,234</u>
	<u>12,608</u>	<u>10,235</u>	<u>6,079,547</u>
	-	-	354,585
	120,000	-	120,000
	(123,069)	-	(1,434,403)
	-	-	(553,143)
	<u>-</u>	<u>-</u>	<u>(81,000)</u>
	<u>(3,069)</u>	<u>-</u>	<u>(1,593,961)</u>
	<u>-</u>	<u>-</u>	<u>93,272</u>
	33,295	15,943	256,959
	<u>16,903</u>	<u>85,169</u>	<u>5,518,568</u>
\$	<u>50,198</u>	\$ <u>101,112</u>	\$ <u>5,775,527</u>
\$	<u>10,578</u>	\$ <u>(3,428)</u>	\$ <u>(4,436,622)</u>
	10,583	2,744	322,840
	-	-	(358,836)
	1,095	(992)	112,781
	1,500	7,384	20,938
	<u>-</u>	<u>-</u>	<u>17,000</u>
	<u>13,178</u>	<u>9,136</u>	<u>114,723</u>
\$	<u>23,756</u>	\$ <u>5,708</u>	\$ <u>(4,321,899)</u>

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	Pension Trust Fund (as of December 31, 2007)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ 590,154	\$ 171,365	\$ 40,220
Investments.....	144,187,545	5,005,031	-
Interest and dividends.....	276,501	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	2,673	-	-
TOTAL ASSETS.....	145,056,873	5,176,396	40,220
LIABILITIES			
Warrants payable.....	30,905	-	5,135
Liabilities due depositors.....	-	-	35,085
TOTAL LIABILITIES.....	30,905	-	40,220
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ <u>145,025,968</u>	\$ <u>5,176,396</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2008

	Pension Trust Fund (as of December 31, 2007)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 7,177,556	\$ -
Employee.....	2,539,195	-
Private donations.....	-	667,731
Total contributions.....	9,716,751	667,731
Net investment income (loss):		
Investment income.....	7,213,735	(520,646)
Less: investment expense.....	(598,595)	-
Net investment income (loss).....	6,615,140	(520,646)
Intergovernmental.....	596,450	-
Transfers from other systems.....	395,239	-
TOTAL ADDITIONS.....	17,323,580	147,085
DEDUCTIONS:		
Administration.....	183,711	-
Transfers to other systems.....	718,054	-
Retirement benefits and refunds.....	13,634,827	-
Human services.....	-	20,360
Educational scholarships.....	-	547,062
TOTAL DEDUCTIONS.....	14,536,592	567,422
CHANGE IN NET ASSETS.....	2,786,988	(420,337)
NET ASSETS AT BEGINNING OF YEAR.....	142,238,980	5,596,733
NET ASSETS AT END OF YEAR.....	\$ 145,025,968	\$ 5,176,396

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Blended Component Units – Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The following component unit is blended within the primary government:

In the Fiduciary Funds:

The Arlington Contributory Retirement System (the System) was established to provide retirement benefits to Town employees and their beneficiaries. The System is governed by a five-member board comprised of the Town Comptroller (ex-officio), two members elected by the System’s participants, one member appointed by the Board of Selectmen and one member appointed by the Retirement Board’s members. The System is presented using the accrual basis of accounting and is reported as a Pension Trust Fund.

Availability of Financial Information for Component Units

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

Joint Venture – The Town has entered into a joint venture for the Minuteman Regional Vocational Technical High School along with other municipalities to pool resources and share the costs, risk and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified recipients. The Town has no equity interest in this joint venture. For fiscal year 2008, the Town’s annual assessment was

\$3,242,218. Complete financial statements for the Minuteman Regional Vocational Technical High School can be obtained by contacting their administrative offices at 758 Marrett Road, Lexington, MA 02421.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise and trust funds).

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

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

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

The following major proprietary funds are reported:

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

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

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

Government-Wide and Fund Financial Statements

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

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

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

Investments are carried at fair value.

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

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

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

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

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

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

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

Motor Vehicle Excise Taxes

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

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

User Fees

Water and sewer user fees are levied semi-annually based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed in June of every year and are included as a lien on the property owner's tax bill in the following fiscal year. Water and sewer user fees are recorded as receivables in the fiscal year of the levy. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period.

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

Departmental and Other

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

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

Intergovernmental

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

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

Loans

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

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

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

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

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

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

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

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

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-50
Buildings.....	50
Vehicles.....	5-10
Machinery and equipment.....	10
Infrastructure.....	45-60
Sewer and water lines.....	60

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

Governmental Fund Financial Statements

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

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Deferred Revenue

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

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

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

Net assets have been "restricted for" the following:

"Loans" represents community development outstanding loans receivable balances.

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

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

"Gifts and grants" represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

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

Fund balances have been "reserved for" the following:

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

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

Fund balances have been “designated for” the following:

“Municipal insurance” represents the amounts the Town has designated for employee healthcare self-insurance.

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2009 operating budget.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer’s 75-90% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2008, this expense/expenditure totaled approximately \$4,999,000. There were approximately 950 participants eligible to receive benefits at June 30, 2008.

The Commonwealth of Massachusetts administers a health insurance plan for all retired teachers of the Commonwealth. The cost of providing that benefit is assessed to each community annually. For the fiscal year ending June 30, 2008 this expense/expenditure amounted to \$4,259. The number of participants covered is not provided by the Commonwealth.

P. Fund Deficits

Several individual fund deficits exist at June 30, 2008, within the special revenue and capital projects funds classified as non-major governmental funds and within the capital borrowing funds classified as a major governmental fund. These deficits will be funded through available funds and grants during fiscal year 2009.

At June 30, 2008, the Youth Services enterprise fund had a deficit of \$28,350. This deficit will be funded through available funds.

Q. Use of Estimates

Government-Wide and Fund Financial Statements

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

R. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Arlington’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$1,310,386 and the bank balance totaled \$2,950,295. Of the bank balance, \$243,295 was covered by Federal Depository Insurance, and \$2,707,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2007, carrying amount of deposits for the Pension System totaled \$345,792 and the bank balance totaled \$615,792. Of the bank balance, \$615,792 was covered by the Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

Investments

As of June 30, 2008, the Town of Arlington had the following investments:

Investment Type	Fair Value	Maturity		
		Under 1 Year	1-5 Years	6-10 Years
Debt Securities:				
Bond Mutual Fund*.....	\$ 8,446,529	\$ -	\$ -	\$ 8,446,529
Repurchase Agreements.....	6,830,989	6,830,989	-	-
Total Debt Securities.....	15,277,518	\$ 6,830,989	\$ -	\$ 8,446,529
Other Investments:				
Equity Mutual Funds.....	12,677,011			
Money Market Mutual Funds.....	208,469			
MMDT.....	28,976,218			
Total Investments.....	\$ 57,139,216			

*At June 30, 2008, the Bond Mutual Fund had an average effective maturity of 7.68 years.

As of December 31, 2007, the Pension System had the following investments:

	Fair Value	Maturity			
		Under 1 Year	1-5 Years	6-10 Years	Over 10 Years
Debt Securities:					
U.S. Government Securities.....	\$ 4,448,671	\$ -	\$ 2,120,251	\$ 923,052	\$ 1,405,368
Corporate Bonds.....	12,751,364	298,188	5,019,652	2,623,587	4,809,937
Government Sponsored Agencies.....	11,623,972	220,402	366,648	465,319	10,571,603
Total Debt Securities.....	28,824,007	\$ 518,590	\$ 7,506,551	\$ 4,011,958	\$ 16,786,908
Other Investments:					
Equity Securities.....	12,199,695				
Equity Mutual Funds.....	103,095,247				
Money Market Mutual Funds.....	244,362				
Real Estate Investment Trust.....	68,596				
Total Investments.....	\$ 144,431,907				

On July 1, 2008, the Pension System moved all other investments into 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.

Subsequent to fiscal year end the market value of the Town's investments declined by approximately (\$3.6) million. Subsequent to December 31, 2007 the market value of System's investments declined by approximately (\$46) million. Please refer to Note 3 for further information on this matter.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town's \$6,830,989 repurchase agreement is invested in Collateralized Ginny Mae Government backed securities. The Town's remaining investments are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book-entry form. The Town'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. In addition, depository accounts exceeding a balance of five hundred thousand dollars must be collateralized, or protected in some other way, such as a bond issued by the depository institution.

Of the Pension System's investments of \$28,824,007 in debt securities, \$12,199,695 in equity securities, and \$68,596 in a real estate investment trust, the system has custodial credit risk exposure of \$41,092,298 because the related securities are uninsured, unregistered and held by the counterparty. The Pension System does not have an investment policy for custodial credit risk.

Interest Rate Risk

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

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

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, such as Veribank, Inc., at least semiannually. All of the Town's investments at June 30, 2008 are unrated.

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. Fixed income instruments are restricted to a minimum of BAA quality. The Pension System's U.S. Agency Securities and corporate bonds were rated by Moody's Investment Services (Moody's) and/or an equivalent national rating organization and the ratings are presented below using the Moody's rating scale.

<u>Rated Debt Investments</u>	<u>Fair Value</u>	<u>Ratings</u>				<u>Unrated</u>
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>B</u>	
Governmental Sponsored Agencies.....	\$ 11,623,972	\$ 11,623,972	\$ -	\$ -	\$ -	\$ -
Corporate Bonds.....	12,751,364	4,643,422	631,333	4,104,072	3,027,560	344,977
Total.....	\$ 24,375,336	\$ 16,267,394	\$ 631,333	\$ 4,104,072	\$ 3,027,560	\$ 344,977

Concentration of Credit Risk

The Town places no limit on the amount the government may invest in any one issuer. The Town did not have more than 5 percent of its investments in any one issuer at June 30, 2008.

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%

The Pension System did not have more than 5 percent of its investments in any one issuer at December 31, 2007.

NOTE 3 – SUBSEQUENT EVENT

The Pension System carries its investments at fair (market) value in accordance with Generally Accepted Accounting Principles (GAAP). Market value adjustments are recorded monthly. Subsequent to December 31, 2007, the System’s investments of approximately \$144 million has declined in value by 32% or, approximately (\$46) million as of November 30, 2008.

The Town’s investments in the amount of approximately \$57.1 million invested in various funds experienced a 6%, or approximately (\$3.6) million decline in market value as shown on the broker’s statement for the month ended November 30, 2008. The investments of the Town’s trust funds incurred most of the loss.

In accordance with GAAP, the Town and the Pension System did not record these losses in the financial statements dated June 30, 2008 and December 31, 2007, respectively, as the impairments were not known as of the respective year end dates. These losses have been recorded subsequently by Town and the Pension System.

The market value declines are consistent with recent trends in the overall financial securities markets.

NOTE 4 – RECEIVABLES

At June 30, 2008, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 8,567	\$ -	\$ 8,567
Real estate tax deferrals.....	377,007	-	377,007
Tax liens.....	471,583	-	471,583
Motor vehicle excise taxes.....	785,911	(510,084)	275,827
Departmental and other.....	351,769	(586)	351,183
Intergovernmental.....	26,358,083	-	26,358,083
Loans.....	1,189,333	-	1,189,333
Total.....	<u>\$ 29,542,253</u>	<u>\$ (510,670)</u>	<u>\$ 29,031,583</u>

At June 30, 2008, receivables for the proprietary funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer fees.....	\$ 4,240,412	\$ -	\$ 4,240,412

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

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 8,567	\$ -	\$ 8,567
Real estate tax deferrals.....	377,007	-	377,007
Tax liens.....	471,583	-	471,583
Motor vehicle excise taxes.....	275,827	-	275,827
Departmental and other.....	173,183	-	173,183
State school construction funds.....	22,858,363	-	22,858,363
Tax foreclosures.....	396,784	-	396,784
Intergovernmental.....	-	3,126,430	3,126,430
Loans.....	-	1,189,333	1,189,333
Total.....	<u>\$ 24,561,314</u>	<u>\$ 4,315,763</u>	<u>\$ 28,877,077</u>

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,525,593	\$ -	\$ -	\$ 10,525,593
Construction in progress.....	11,387,509	921,255	(2,059,758)	10,249,006
Total capital assets not being depreciated.....	<u>21,913,102</u>	<u>921,255</u>	<u>(2,059,758)</u>	<u>20,774,599</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	105,555,904	2,300,000	(18,000)	107,837,904
Improvements.....	4,255,677	1,796,347	-	6,052,024
Vehicles and equipment.....	8,177,081	1,094,631	(651,729)	8,619,983
Infrastructure.....	51,448,334	655,521	-	52,103,855
Total capital assets being depreciated.....	<u>169,436,996</u>	<u>5,846,499</u>	<u>(669,729)</u>	<u>174,613,766</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(34,160,539)	(2,030,273)	18,000	(36,172,812)
Improvements.....	(992,914)	(248,985)	-	(1,241,899)
Vehicles and equipment.....	(5,309,626)	(729,556)	651,729	(5,387,453)
Infrastructure.....	(34,065,956)	(1,382,958)	-	(35,448,914)
Total accumulated depreciation.....	<u>(74,529,035)</u>	<u>(4,391,772)</u>	<u>669,729</u>	<u>(78,251,078)</u>
Total capital assets being depreciated, net.....	<u>94,907,961</u>	<u>1,454,727</u>	<u>-</u>	<u>96,362,688</u>
Total governmental activities capital assets, net.....	<u>\$ 116,821,063</u>	<u>\$ 2,375,982</u>	<u>\$ (2,059,758)</u>	<u>\$ 117,137,287</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,954	\$ -	\$ -	\$ 2,954
<u>Capital assets being depreciated:</u>				
Buildings.....	730,566	-	-	730,566
Improvements.....	65,420	-	-	65,420
Vehicles and equipment.....	901,418	474,401	(220,653)	1,155,166
Infrastructure.....	12,311,290	960,002	-	13,271,292
Total capital assets being depreciated.....	14,008,694	1,434,403	(220,653)	15,222,444
<u>Less accumulated depreciation for:</u>				
Buildings.....	(126,617)	(14,912)	-	(141,529)
Improvements.....	(16,305)	(3,271)	-	(19,576)
Vehicles and equipment.....	(717,138)	(80,865)	220,653	(577,350)
Infrastructure.....	(3,096,933)	(223,792)	-	(3,320,725)
Total accumulated depreciation.....	(3,956,993)	(322,840)	220,653	(4,059,180)
Total capital assets being depreciated, net.....	10,051,701	1,111,563	-	11,163,264
Total business-type activities capital assets, net.....	\$ 10,054,655	\$ 1,111,563	\$ -	\$ 11,166,218

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

Governmental Activities:

General government.....	\$ 185,908
Public safety.....	356,961
Education.....	1,791,026
Public works.....	1,833,346
Human services.....	3,068
Culture and recreation.....	221,463

Total depreciation expense - governmental activities..... \$ 4,391,772

Business-Type Activities:

Water and sewer.....	\$ 306,333
Council on aging.....	3,180
Veterans' rink.....	10,583
Recreation.....	2,744

Total depreciation expense - business-type activities..... \$ 322,840

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2008, an interfund receivable/payable of \$18,816 exists between the general fund and the youth services enterprise fund. Its purpose is to cover short-term cash needs that will be funded by future user charges.

Interfund transfers for the fiscal year ended June 30, 2008, are summarized as follows:

Transfers In:	Transfers Out:			Total
	General Fund	Nonmajor Governmental Funds	Governmental Activities	
General Fund.....	\$ -	\$ 853,586	\$ -	\$ 853,586
Capital Borrowing Fund.....	20,000	-	-	20,000
Nonmajor Governmental Funds.....	1,037,953	223,675	-	1,261,628
Water & Sewer Enterprise Fund.....	5,626,897	-	-	5,626,897
Youth Services Enterprise Fund.....	231,124	-	-	231,124
Council On Aging Enterprise Fund.....	3,992	16,641	-	20,633
Veteran's Rink Enterprise Fund.....	12,608	-	120,000	132,608
Recreation Enterprise Fund.....	10,235	-	-	10,235
Totals.....	\$ 6,942,809	\$ 1,093,902	\$ 120,000	\$ 8,156,711
	(1)	(2)	(3)	

- (1) Represents budgeted transfers from the general fund to the water and sewer, youth services, council on aging, veterans' rink and recreation enterprise funds, the fiscal 2007 capital borrowing, 200th anniversary, 2008 capital tax levy, deferred payment trust, and retiree healthcare, fiscal stability, and Symmes Property nonmajor funds.
- (2) Represents budgeted transfers to the general fund from miscellaneous nonmajor funds. Also, represented are transfers between miscellaneous nonmajor funds.
- (3) Represents a capital contribution to the veterans' rink enterprise fund from governmental activities.

NOTE 7 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2008, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2007	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2008
BAN	Symmes Property.....	5.65	08/30/07	\$ 12,200,000	\$ -	\$ 12,200,000	\$ -

On August 27, 2008, the Town issued a \$5,185,000 BAN and a \$1,310,000 taxable BAN for the Symmes Property, maturing on August 27, 2009, with interest rates of 3.00% and 3.90%, respectively. The proceeds of the BANs were used to retire the two BANs outstanding at June 30, 2008. As of June 30, 2008 the BANs have been reported as long-term debt.

NOTE 8 – 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, 2008, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
Municipal Purpose - 1997.....	5.16	\$ 555,000	\$ -	\$ 270,000	\$ 285,000
Municipal Purpose - 1997.....	5.22	275,000	-	275,000	-
Municipal Purpose - 1999.....	4.00 - 6.00	9,800,000	-	9,800,000	-
Municipal Purpose - 2000.....	5.10	4,630,000	-	3,220,000	1,410,000
Municipal Purpose - 2002.....	3.75 - 4.88	10,995,000	-	970,000	10,025,000
Municipal Purpose - 2003.....	4.50	5,020,000	-	780,000	4,240,000
Municipal Purpose - 2004.....	2.50 - 3.75	3,050,000	-	465,000	2,585,000
GOB Refunding - 2005.....	3.00 - 5.00	3,050,000	-	25,000	3,025,000
GOB Refunding - 2005.....	3.00 - 5.00	2,575,000	-	30,000	2,545,000
Municipal Purpose - 2005.....	2.80 - 4.13	4,620,000	-	550,000	4,070,000
Municipal Purpose - 2006.....	4.00 - 5.50	6,100,000	-	450,000	5,650,000
Municipal Purpose - 2007.....	3.75 - 4.75	-	3,102,000	-	3,102,000
GOB Refunding - 2007.....	3.75 - 5.00	-	11,690,000	-	11,690,000
Equipment.....	3.75 - 4.50	-	100,000	-	100,000
Symmes Property long-term BAN.....	3.00-3.90	-	5,227,000	-	5,227,000
Symmes Property long-term BAN.....	3.00-3.90	-	1,268,000	-	1,268,000
Total governmental bonds payable.....		\$ 50,670,000	\$ 21,387,000	\$ 16,835,000	\$ 55,222,000

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

	Principal	Interest	Total
2009.....	\$ 5,502,000	\$ 2,382,460	\$ 7,884,460
2010.....	11,715,000	1,788,218	13,503,218
2011.....	4,960,000	1,592,453	6,552,453
2012.....	4,550,000	1,337,384	5,887,384
2013.....	4,310,000	1,098,967	5,408,967
2014.....	4,150,000	938,551	5,088,551
2015.....	4,085,000	781,407	4,866,407
2016.....	3,740,000	625,052	4,365,052
2017.....	3,660,000	469,978	4,129,978
2018.....	2,675,000	334,953	3,009,953
2019.....	1,445,000	244,885	1,689,885
2020.....	1,365,000	182,842	1,547,842
2021.....	1,355,000	121,849	1,476,849
2022.....	425,000	65,076	490,076
2023.....	415,000	46,877	461,877
2024.....	400,000	29,223	429,223
2025.....	235,000	15,422	250,422
2026.....	235,000	5,141	240,141
Totals.....	\$ <u>55,222,000</u>	\$ <u>12,060,736</u>	\$ <u>67,282,736</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. During fiscal year 2008, the Town received an additional \$354,585 from this program in the form of three sewer bonds repayable in 5 equal annual installments.

Project	Interest Rate (%)	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
Water Bond - MWRA.....	-	\$ 560,000	-	\$ 70,000	\$ 490,000
Sewer Bond - MWRA.....	-	113,751	-	37,917	75,834
Sewer Bond - MWRA.....	-	11,880	-	3,960	7,920
Sewer Bond - MWRA.....	-	129,184	-	32,296	96,888
Sewer Bond - MWRA.....	-	844,200	-	93,800	750,400
Municipal Purpose - 2006.....	4.00 - 5.50	2,000,000	-	200,000	1,800,000
Sewer Bond - MWRA.....	-	575,850	-	115,170	460,680
Sewer Bond - MWRA.....	-	-	170,665	-	170,665
Sewer Bond - MWRA.....	-	-	11,770	-	11,770
Sewer Bond - MWRA.....	-	-	172,150	-	172,150
Total enterprise fund bonds payable.....		\$ <u>4,234,865</u>	\$ <u>354,585</u>	\$ <u>553,143</u>	\$ <u>4,036,307</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 624,060	\$ 71,000	\$ 695,060
2010.....	624,060	62,250	686,310
2011.....	582,183	53,875	636,058
2012.....	549,887	45,625	595,512
2013.....	434,717	37,375	472,092
2014.....	363,800	29,125	392,925
2015.....	363,800	20,875	384,675
2016.....	293,800	12,625	306,425
2017.....	<u>200,000</u>	<u>4,250</u>	<u>204,250</u>
Totals.....	<u>\$ 4,036,307</u>	<u>\$ 337,000</u>	<u>\$ 4,373,307</u>

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2008, \$2,546,280 of such assistance was received. Approximately \$26,421,000 will be received in future fiscal years. Of this amount, approximately \$3,563,000 represents reimbursement of long-term interest costs, and approximately \$22,858,000 represents reimbursement of approved construction costs. Accordingly, a \$22,858,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The net change in deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In order to take advantage of favorable interest rates, the Town issued \$11,690,000 in General Obligation Refunding Bonds on November 15, 2007, to advance refund \$11,385,000 in outstanding bonds. To advance refund the bonds, the Town placed the net proceeds of the refunding bonds in an irrevocable trust with an escrow agent to pay, when due, interest on, and upon redemption, the outstanding principal of and redemption premium of the refunded bonds. As a result, the refunded bonds were defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$406,471. This amount is recorded as deferred charges on refunding and is being amortized over the life of the refunded debt, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$675,507 and resulted in an economic gain of \$434,205. Of the refunded debt, \$8,675,000 was redeemed, when callable, during fiscal year 2008. As of June 30, 2008, the remaining \$2,710,000 is considered defeased.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2008, the Town had the following authorized and unissued debt:

Purpose	Amount
Sewer and water facilities.....	\$ 1,630,190
MWRA.....	2,300,000
School construction.....	177,482
Suburban renewal.....	1,375,000
Financing.....	30,000
Private ways.....	200,000
Outdoor recreational facilities.....	460,000
Departmental equipment.....	1,233,000
Drainage.....	250,000
Computers.....	300,650
Planning.....	370,000
Remodeling.....	979,084
Leased property.....	233,000
Energy management system.....	20,000
Total.....	\$ 9,558,406

Changes in long-term liabilities

During the fiscal year ended June 30, 2008, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Long-Term Bonds and Notes.....	\$ 50,670,000	\$ 21,387,000	\$ (16,835,000)	\$ 55,222,000	\$ 5,502,000
Workers' Compensation.....	653,000	328,677	(401,677)	580,000	181,000
Compensated Absences.....	5,535,000	3,810,000	(3,639,000)	5,706,000	3,752,000
Total governmental activities.....	\$ 56,858,000	\$ 25,525,677	\$ (20,875,677)	\$ 61,508,000	\$ 9,435,000
Business-Type Activities:					
Long-Term Bonds and Notes.....	\$ 4,234,865	\$ 354,585	\$ (553,143)	\$ 4,036,307	\$ 624,060
Compensated Absences.....	83,000	86,000	(69,000)	100,000	61,000
Total business-type activities.....	\$ 4,317,865	\$ 440,585	\$ (622,143)	\$ 4,136,307	\$ 685,060

NOTE 9 – STABILIZATION FUND

At June 30, 2008, the Town has \$2,536,290 in a stabilization fund, which is classified as a special revenue fund within the nonmajor governmental funds in the fund-based basic financial statements. The Town may use the stabilization fund for general and/or capital purposes upon Town Meeting approval.

NOTE 10 – 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, 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 \$3,187,031 in the tip fee stabilization fund at June 30, 2008, which is recorded as a special revenue fund within the nonmajor governmental funds in the fund-based basic financial statements. The activity of the fund in fiscal year 2008 consists of the following:

Fund balance at June 30, 2007.....	\$ 3,723,911
Intergovernmental.....	4,681
Investment income.....	138,439
Transfer to the general fund.....	<u>(680,000)</u>
Fund balance at June 30, 2008.....	<u>\$ 3,187,031</u>

NOTE 11 – FISCAL STABILITY STABILIZATION FUND

In accordance with Chapter 40, Section 5B of the General Laws of the Commonwealth, the Town has created a fiscal stability stabilization fund to accumulate funds to be utilized for future municipal budget expenditures. As of June 30, 2008, the balance in this fund totaled \$4,386,009.

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.

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

(a) *Health Insurance*

The estimate of Incurred But Not Reported (IBNR) claims based on a one and a half month claims paid average for six months prior to fiscal year-end. At June 30, 2008, the amount of the liability for incurred but not reported health insurance claims totaled \$1,678,000 which is reported on the balance sheet and

statement of net assets. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2006, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2007.....	\$ 1,435,000	\$	11,028,442	\$	(10,447,442)	\$	2,016,000
Fiscal Year 2008.....	2,016,000		11,441,392		(11,779,392)		1,678,000

In fiscal year 2001, the Town established a retiree healthcare trust fund. The Town's intention is to appropriate money into the fund each year to stabilize future costs for the healthcare of retirees. The Town has \$2,239,303 in the fund at June 30, 2008, and is reported in the general fund in the fund-based basic financial statements.

(b) *Workers' Compensation*

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

At June 30, 2008, the amount of the liability for workers' compensation claims totaled \$580,000. This liability is the Town's best estimate based on available information. Changes in the reported liability since July 1, 2006, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2007.....	\$ 896,300	\$	231,250	\$	(474,550)	\$	653,000
Fiscal Year 2008.....	653,000		328,677		(401,677)		580,000

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 \$10,153,000 for the fiscal year ended June 30, 2008, 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, 2007, the System's membership consists of the following:

Active members.....	713
Inactive members.....	164
Retirees and beneficiaries currently receiving benefits.....	<u>647</u>
 Total.....	 <u><u>1,524</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, 2008, 2007, and 2006 were \$7,022,886, \$7,048,540 and \$6,779,875 respectively, which equaled its required contribution for each fiscal year. At June 30, 2008, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases of 4.75% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at January 1, 2008, was 13 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)
1/1/08	\$ 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 2008 totaled approximately \$170,000.

NOTE 14 – COMMITMENTSSymmes Hospital Site

During fiscal year 2002, the Town appropriated and authorized to borrow \$14 million to provide the Arlington Redevelopment Board with funds for the purchase, operation, maintenance and development of the former Symmes Hospital site, which is 18 acres in area and has two buildings, one of which is the former Symmes Hospital. The Town has operated the site with two major tenants occupying part of the former hospital building which it conducted an extensive study of the potential re-use of the property.

The Arlington Redevelopment Board issued requests for proposals, and in February 2006 chose E. A. Fish Associates to purchase and redevelop the property. The Redevelopment Board negotiated a Land Disposition Agreement in August 2006. At the end of Fiscal 2007, the developer was in the process of getting the special permits it needs to redevelop the site. The terms of the sale have been amended to allow the developer to postpone closing until June 2008. Beginning in November 2007 the developer will pay the expenses of the Town for holding the property for the extended time period. Total net expenditures were \$12.2 million at the time of closing on the property sale. At closing the debt paydown by the Town was \$5.7 million, leaving \$6.5 million in debt. 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. The project construction is on schedule and tax revenues are slightly higher than expected. 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. Assuming the apartments are converted to condominiums as expected beginning in 2011, tax revenues available for debt repayment will be approximately \$1 million per year.

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

Reed's Brook Site

In 1995, the Town Meeting voted to purchase a 20 acre parcel of land that had been used as a sanitary landfill up until 1970. The Town subsequently purchased an abutting 2 acres of land and voted to create a park on the site. The first phase of the project which consisted of extensive storm drain improvements and the moving of 90,000 cubic yards of material was completed in the fall of 2002. The second phase of the project which included the construction of playing fields and landscaping was essentially completed in September 2006. The entire park, including playing fields, has been in use since 2007.

The total project cost is nearly \$7.5 million of which the Town has supplied \$4.78 million. The remaining funds were supplied by grants from the Massachusetts Highway Department (\$678,316), Federal Emergency Management Administration (\$754,457) and Federal Community Development Block Grant (\$1,362,500).

NOTE 15 – CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2008, 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, 2008, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2008.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2008, the following GASB pronouncements were implemented:

- The GASB issued Statement #50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27. The Town's disclosures related to pensions have been updated in the basic financial statements.
- The GASB issued Statement # 53, Accounting and Financial Reporting for Derivative Instruments. The standards in this statement require all derivative instruments be reported at fair value. Management has elected to implement this GASB early. The basic financial statements were not impacted by this GASB.
- The GASB issued Statement #52, Land and Other Real Estate Held as Investments by Endowments, which is required to be implemented in fiscal year 2009. Management has elected to implement this GASB early. The basic financial statements were not impacted by this GASB.

Future Implementation of GASB Pronouncements:

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

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Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 78,161,604	\$ 78,161,604	\$ 78,161,604
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	3,875,000	3,875,000	3,875,000
Hotel/motel tax.....	-	120,000	120,000	120,000
Intergovernmental.....	-	18,439,961	18,439,961	18,439,961
Departmental and other.....	-	3,269,200	3,269,200	3,269,200
Investment income.....	-	1,350,000	1,350,000	1,350,000
TOTAL REVENUES.....	-	105,215,765	105,215,765	105,215,765
EXPENDITURES:				
Current:				
General government.....	505,434	5,541,941	6,047,375	5,367,744
Public safety.....	35,696	11,972,625	12,008,321	12,037,979
Education.....	3,872,193	40,052,225	43,924,418	43,930,033
Public works.....	592,223	5,754,102	6,346,325	6,769,703
Property and natural resources.....	42,392	1,749,807	1,792,199	1,698,707
Community development.....	3,166	699,309	702,475	798,829
Human services.....	-	637,303	637,303	681,338
Library.....	714	1,811,090	1,811,804	1,850,067
Pension benefits.....	1,266	6,706,716	6,707,982	6,706,716
Property and liability insurance.....	-	320,625	320,625	320,625
Employee benefits.....	21,291	14,709,885	14,731,176	14,732,442
Claims and judgments.....	-	106,000	106,000	106,000
State and county charges.....	-	2,629,142	2,629,142	2,629,142
Debt service:				
Principal.....	-	5,369,000	5,369,000	5,450,000
Interest.....	45,631	2,217,038	2,262,669	2,181,669
TOTAL EXPENDITURES.....	5,120,006	100,276,808	105,396,814	105,260,994
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(5,120,006)	4,938,957	(181,049)	(45,229)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	850,625	850,625	874,211
Transfers out.....	-	(7,144,318)	(7,144,318)	(7,279,848)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(6,293,693)	(6,293,693)	(6,405,637)
NET CHANGE IN FUND BALANCE.....	(5,120,006)	(1,354,736)	(6,474,742)	(6,450,866)
BUDGETARY FUND BALANCE, Beginning of year.....	11,547,260	11,547,260	11,547,260	11,547,260
BUDGETARY FUND BALANCE, End of year.....	\$ 6,427,254	\$ 10,192,524	\$ 5,072,518	\$ 5,096,394

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	78,008,137	\$ -	\$ (153,467)
	171,278	-	171,278
	3,951,799	-	76,799
	123,522	-	3,522
	18,813,278	-	373,317
	3,918,734	-	649,534
	<u>1,030,219</u>	<u>-</u>	<u>(319,781)</u>
	106,016,967	-	801,202
	3,981,382	1,321,809	64,553
	11,953,116	57,177	27,686
	40,199,933	3,657,406	72,694
	7,240,786	72,855	(543,938)
	1,594,260	71,740	32,707
	751,001	43,213	4,615
	671,264	1,275	8,799
	1,837,496	12,566	5
	6,687,134	-	19,582
	288,699	-	31,926
	14,542,526	100,115	89,801
	106,500	-	(500)
	2,622,634	-	6,508
	5,450,000	-	-
	<u>1,946,452</u>	<u>235,217</u>	<u>-</u>
	99,873,183	5,573,373	(185,562)
	6,143,784	(5,573,373)	615,640
	874,211	-	-
	<u>(7,408,032)</u>	<u>-</u>	<u>(128,184)</u>
	(6,533,821)	-	(128,184)
	(390,037)	(5,573,373)	487,456
	<u>11,547,260</u>	<u>-</u>	<u>-</u>
\$	<u>11,157,223</u>	\$ <u>(5,573,373)</u>	\$ <u>487,456</u>

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

Municipal Law requires the adoption of a balanced budget that is approved by the Finance Committee (Committee). The Committee presents an annual budget to the Representative Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Town, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote at the Annual Town Meeting. Changes subsequent to the approved annual budget require majority vote at a Special Town Meeting.

The majority of the Town's appropriations are non-continuing, which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote at a special town meeting.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The fiscal year 2008 original budget includes approximately \$107.4 million in current year authorized appropriations and other amounts to be raised and \$5.1 million in encumbrances and appropriations were carried over from previous fiscal years.

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, 2008, is presented as follows:

Net change in fund balance, budgetary basis.....	\$ (390,037)
<u>Perspective difference:</u>	
Activity of health insurance, municipal building insurance and retirees health care trust recorded in the general fund for GAAP.....	555,323
<u>Basis of accounting differences:</u>	
Recognition of expenditures on modified accrual basis.....	295,364
Recognition of revenue for on-behalf payment.....	(10,153,009)
Recognition of expenditure for on-behalf payment.....	<u>10,153,009</u>
Net change in fund balance, GAAP basis.....	<u>\$ 460,650</u>

C. Appropriation Deficits

During fiscal year 2008, general fund expenditures exceeded budgeted appropriations for public works, claims and judgments, and transfers out. These deficits will be funded through fiscal year 2009 real estate taxes and with available funds.