

TOWN OF ARLINGTON, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2013

TOWN OF ARLINGTON, MASSACHUSETTS

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Independent Auditor's Report

To the Board of Selectmen
Town of Arlington, Massachusetts

Report on the Financial Statements

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 year ended June 30, 2013 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2012), and the respective

changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2013, on our consideration of the Town of Arlington, Massachusetts' internal control over financial reporting and on 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* in considering the Town of Arlington, Massachusetts' internal control over financial reporting and compliance.



September 19, 2013

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, 2013. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all assets and liabilities, and deferred inflows/outflows of resources, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the Town's financial position is improving or deteriorating.

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

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

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

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

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

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

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains three different fiduciary funds. The pension trust fund is used to account for resources held in trust for members of the Arlington Contributory Retirement System. The other postemployment benefit trust fund is used to account for resources held in trust to fund the Town's portion of health benefits for retirees and beneficiaries. The private purpose trust fund is used to account for resources held in trust which principle and investment income exclusively benefit individuals, private organizations, or other governments.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For governmental activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$119.2 million at the close of fiscal year 2013.

The largest portion of the Town's net position, \$98 million (82%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), net of 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 net position \$14.4 million (12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$6.9 million, (6%) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

| | Balance at June 30, 2013 | Balance at June 30, 2012 | Increase (Decrease) |
|--|--------------------------------|--------------------------------|----------------------------|
| Assets: | | | |
| Current assets..... | \$ 74,092,856 | \$ 64,451,958 | \$ 9,640,898 |
| Noncurrent assets (excluding capital)..... | 11,062,362 | 13,524,499 | (2,462,137) |
| Capital assets..... | <u>139,096,036</u> | <u>125,087,655</u> | <u>14,008,381</u> |
| Total assets..... | <u>224,251,254</u> | <u>203,064,112</u> | <u>21,187,142</u> |
| Liabilities: | | | |
| Current liabilities (excluding debt)..... | 14,344,285 | 11,169,076 | 3,175,209 |
| Noncurrent liabilities (excluding debt)..... | 35,368,652 | 25,066,621 | 10,302,031 |
| Current debt..... | 9,895,843 | 12,670,664 | (2,774,821) |
| Noncurrent debt..... | <u>45,442,415</u> | <u>39,810,000</u> | <u>5,632,415</u> |
| Total liabilities..... | <u>105,051,195</u> | <u>88,716,361</u> | <u>16,334,834</u> |
| Net Position: | | | |
| Net investment in capital assets..... | 97,950,516 | 92,844,805 | 5,105,711 |
| Restricted..... | 14,380,013 | 12,466,608 | 1,913,405 |
| Unrestricted..... | <u>6,869,530</u> | <u>9,036,338</u> | <u>(2,166,808)</u> |
| Total net position..... | <u>\$ 119,200,059</u> | <u>\$ 114,347,751</u> | <u>\$ 4,852,308</u> |

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year. Within the business-type activities, the Town reported a \$64,000 deficit balance for the youth services enterprise fund which is the result of recording a \$106,000 other postemployment benefits liability. The Veterans' Rink and recreation enterprise funds reported deficit unrestricted net positions of \$17,000 and \$81,000, respectively. These deficits can also be attributed to the liability recorded for other postemployment benefits.

The governmental activities net position increased by \$4.8 million during the current fiscal year. Increases in net position were partially derived from the recognition of MSBA capital grants for school improvements of approximately \$6 million, unspent proceeds from the sale of the fully depreciated Crosby school building of \$2.9 million, better than anticipated results in the general fund, and additional taxes raised for the Fiscal Stability fund to be used to offset future budgets. Offsetting these increases was an increase of \$10.2 million in the Town's other postemployment benefit obligation and a \$548,000 payment to the other postemployment benefits trust fund which is reported as a fiduciary fund and, accordingly, is not included in the government-wide financial statements.

The Town voted a tax override of \$6.5 million in fiscal year 2012 that resulted in an increase in real estate and personal property tax revenue above the usual 2 ½ % increase allowed by Massachusetts General Laws. The override was approved by voters to prevent otherwise projected decreases in municipal services. The Town has reserved a portion of the additional tax funds in fiscal years 2012 and 2013 to be used to stabilize future operating budgets and has approved additional transfers of unspent health insurance appropriations to add to this balance. As of June 30, 2013, approximately \$7.9 million is reserved for this purpose which is reported within the unrestricted net position.

The \$2.5 million decrease in noncurrent assets (excluding capital) is primarily due to the reduction in the intergovernmental receivable from the Massachusetts School Building Association, as school construction funds are received annually which are used to retire debt outstanding for school construction projects.

The \$14 million increase in capital assets is mainly from the renovations to the Thompson school.

Governmental Activities

| | Fiscal Year 2013 | Fiscal Year 2012 | Increase (Decrease) |
|--|---------------------|---------------------|------------------------|
| Program revenues: | | | |
| Charges for services..... | \$ 10,668,650 | \$ 12,681,923 | \$ (2,013,273) |
| Operating grants and contributions..... | 33,458,295 | 31,877,615 | 1,580,680 |
| Capital grants and contributions..... | 6,800,967 | 2,852,994 | 3,947,973 |
| General revenues: | | | |
| Real estate and personal property taxes..... | 97,180,236 | 94,167,638 | 3,012,598 |
| Tax liens..... | 510,933 | 459,150 | 51,783 |
| Motor vehicle excise taxes..... | 4,066,173 | 3,921,568 | 144,605 |
| Hotel/motel tax..... | 283,497 | 262,094 | 21,403 |
| Meals tax..... | 326,726 | 307,037 | 19,689 |
| Penalties and interest on taxes..... | 352,869 | 252,493 | 100,376 |
| Nonrestricted grants and contributions..... | 7,046,868 | 6,939,154 | 107,714 |
| Unrestricted investment income..... | 1,291,139 | 239,339 | 1,051,800 |
| Gain on sale of capital assets..... | 2,873,618 | - | 2,873,618 |
| Miscellaneous revenues..... | 14,419 | 13,973 | 446 |
| Total revenues..... | 164,874,390 | 153,974,978 | 10,899,412 |
| Expenses: | | | |
| General government..... | 10,813,564 | 10,355,512 | 458,052 |
| Public safety..... | 25,861,607 | 23,275,317 | 2,586,290 |
| Education..... | 90,812,950 | 80,540,822 | 10,272,128 |
| Public works..... | 12,993,064 | 11,598,855 | 1,394,209 |
| Community and economic development..... | 5,683,462 | 5,029,219 | 654,243 |
| Human services..... | 2,023,675 | 1,792,014 | 231,661 |
| Library..... | 3,375,967 | 3,352,988 | 22,979 |
| Culture and recreation..... | 795,686 | 652,529 | 143,157 |
| Interest..... | 1,802,643 | 1,361,552 | 441,091 |
| Total expenses..... | 154,162,618 | 137,958,808 | 16,203,810 |
| Transfers..... | (5,859,464) | (6,282,301) | 422,837 |
| Change in net position..... | \$ 4,852,308 | \$ 9,733,869 | \$ (4,881,561) |

The decrease in charges for services is primarily due to the Town's discontinuation of the charge for the all-day kindergarten program in fiscal year 2013. This program took in approximately \$1.4 million in fiscal year 2012. Also, building permits related to the redevelopment of the Symmes Property of approximately \$666,000 were collected in fiscal year 2012 resulting in a spike in this category of revenue for fiscal year 2012.

The increase in capital grants is primarily related to the MSBA reimbursements for a percentage of the construction costs on the Thompson school project. The gain on sale of capital assets represents the proceeds from the sale of the fully depreciated Crosby school building.

The increases in expenses represent both budgetary increases and an increase in the Town's liability for other postemployment benefits. The largest expense increase was in education. Of this \$10.3 million increase,

\$5 million is a direct result of budgetary increases and approximately \$4 million represents increases in the allocation of pension and opeb expenses to this function.

Business-Type Activities

| | Balance at June 30, 2013 | Balance at June 30, 2012 | Increase (Decrease) |
|--|--------------------------------|--------------------------------|------------------------|
| Assets: | | | |
| Current assets..... | \$ 10,947,984 | \$ 10,170,937 | \$ 777,047 |
| Capital assets..... | 22,029,278 | 20,471,906 | 1,557,372 |
| Total assets..... | 32,977,262 | 30,642,843 | 2,334,419 |
| Liabilities: | | | |
| Current liabilities (excluding debt)..... | 305,308 | 164,066 | 141,242 |
| Noncurrent liabilities (excluding debt)..... | 996,272 | 720,199 | 276,073 |
| Current debt..... | 1,301,578 | 1,163,295 | 138,283 |
| Noncurrent debt..... | 6,580,772 | 5,851,350 | 729,422 |
| Total liabilities..... | 9,183,930 | 7,898,910 | 1,285,020 |
| Net Position: | | | |
| Net investment in capital assets..... | 14,827,000 | 14,543,666 | 283,334 |
| Unrestricted..... | 8,966,332 | 8,200,267 | 766,065 |
| Total net position..... | \$ 23,793,332 | \$ 22,743,933 | \$ 1,049,399 |
| | Fiscal Year 2013 | Fiscal Year 2012 | Increase (Decrease) |
| Program revenues: | | | |
| Charges for services..... | \$ 14,462,642 | \$ 12,030,535 | \$ 2,432,107 |
| Operating grants and contributions..... | 91,703 | 107,968 | (16,265) |
| General revenues: | | | |
| Unrestricted investment income..... | 39,218 | 46,339 | (7,121) |
| Total revenues..... | 14,593,563 | 12,184,842 | 2,408,721 |
| Expenses: | | | |
| Water and Sewer..... | 17,587,856 | 16,430,637 | 1,157,219 |
| Youth Services..... | 465,735 | 387,042 | 78,693 |
| Council on Aging..... | 121,014 | 100,544 | 20,470 |
| Veterans' Rink..... | 601,659 | 603,557 | (1,898) |
| Recreation..... | 627,364 | 587,327 | 40,037 |
| Total expenses..... | 19,403,628 | 18,109,107 | 1,294,521 |
| Transfers..... | 5,859,464 | 6,282,301 | (422,837) |
| Change in net position..... | \$ 1,049,399 | \$ 358,036 | \$ 691,363 |

There was a net increase of \$1 million in net position 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 2013 by approximately \$5.6 million to offset a portion of the costs associated with the repayment of debt to the Massachusetts Water Resources Authority. The increase in net position of \$1 million was related to the activity in

the water and sewer enterprise fund which reported an increase in charges for services as a result of increased water usage. The increase in water and sewer expenses was primarily made up of the \$800,000 increase in the MWRA assessment. This assessment comprises 70% of the fund's expenses.

The increase in capital assets consists of the water and sewer enterprise fund's investment in water and sewer lines and water meters, totaling approximately \$2.1 million in fiscal year 2013, which was funded through available funds and \$174,000 in improvements in the Veterans' Rink enterprise fund.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$54.4 million, an increase of \$4.4 million from the prior year.

The general fund reported a \$2.3 million increase in fund balance in the fund based financial statements. This includes the activity of the Town's stabilization funds and insurance trust funds which are reported within the general fund. The Town's stabilization funds totaled \$10.7 million at year end and reported an increase of \$3.6 million from fiscal year 2012, which was primarily the result of funds generated by the fiscal year 2012 tax override. The insurance trust funds reported a decrease of \$260,000, and the operating general fund accounted for the remaining \$995,000 decrease.

The Town's capital borrowing major fund had reported a fund balance of \$742,000, a decrease of \$4.2 million from the prior year. During fiscal year 2013, the Town recognized \$5.8 million in bond proceeds in this major fund which represents long-term borrowing used to finance various capital projects identified in the Town's capital improvement plan. Current expenditures in this fund totaled \$17.2 million and related mainly to improvements to the Thompson elementary school, the community safety building and fire stations. Capital expenditures have been partially funded through \$2.4 million in short-term BANs which are not recorded as funding sources on the fund based financial statements. Additionally, the Thompson school project costs are partially funded through the Massachusetts School Building Authority (MSBA). The fund reported \$6.8 million in MSBA reimbursements in fiscal year 2013.

There was a \$6.2 million increase in the nonmajor governmental funds, which reported \$21.0 million in revenues, \$20.4 million in expenditures, and \$5.6 million in other financing sources and uses. Of this increase, \$1.1 million was due to a premium on the sale of bonds, \$2.9 million was the gain on the sale of the Crosby School, \$1.1 million was from investment income in the permanent trust funds, and \$828,000 was from contributions to the Permanent Funds.

General Fund Budgetary Highlights

Changes between the original and final budget were primarily comprised of \$970,000 in additional appropriations from free cash for the school department and transfers between functional line items. The reserve fund and collective bargaining appropriations are initially budgeted under general government. The budget is adjusted as reserve fund transfers are voted by the finance committee or as collective bargaining settlements are made.

In the final budget, the Town budgeted to use \$1.8 million of available reserves to balance the fiscal year 2013 budget. The reserves were from available funds “free cash” totaling \$1.6 million, and prior reserves released by the board of assessors “overlay surplus” totaling \$200,000. However, actual results from operations were better than anticipated as the Town collected approximately \$2.6 million more than budgeted and departments expended \$1.0 million less than budgeted.

By category, all actual revenues came in over budget. The largest revenue variance was from building permits classified within departmental and other revenues. Expenditures for employee benefits came in under budget by almost \$800,000, significantly contributing to the surplus. Expenditures exceeded the budget for snow and ice removal (public works) and for state and county assessments. The Town is allowed to overspend for snow and ice removal and to raise any unfunded deficit in the subsequent fiscal year. State assessments are withheld directly from state distributions to the Town.

Other Postemployment Benefits (OPEB)

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

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

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

An actuarial study determined that Arlington's total Actuarial Accrued Liability as of January 1, 2012, at a 4.20% partially funded discount rate, totaled \$174.1 million. As of June 30, 2013, the Town has recognized a liability for other postemployment benefits totaling \$34.1 million. The increase in the liability is based on the difference between the Annual Required Contribution (ARC) of \$17.3 million and the Town's actual contribution of \$6.8 million which was made through a combination of benefit payments and pre-fundings to the OPEB Trust Fund in the amounts of \$6.2 million and \$548,000, respectively. The assets set aside in trust for future benefits amounted to \$5.6 million at fiscal year-end.

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

Capital Asset and Debt Administration

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

The goal of the Capital Planning Program is to provide a means of planning for the maintenance and/or improvement of the capital assets and infrastructure of the Town of Arlington. To that end, the policy is that approximately 5% of the projected revenue of the Town is dedicated to capital expenditures including prior and future debt issuances. For the fiscal year 2014 budget, this allowed for an annual cash expenditure of \$1.45 million and a new borrowing of \$3.58 million. The Town's outstanding long-term debt related to the general government, as of June 30, 2013, was \$52 million for various CIP related projects.

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

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

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

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

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

The Town is a member of the Massachusetts Water Resources Authority (MWRA), which assesses member communities annually for their proportionate share of the MWRA's debt service. The Town has also adopted Chapter 59 Section 21C Paragraph N of the Massachusetts General Law, which allows for the shifting of the debt service for water and sewer to the tax rate above the limits of Proposition 2 ½. The Town shifted \$5,593,112 million in fiscal year 2013 from the MWRA assessment to the property taxes. During fiscal year 2013, the Town issued an additional \$1.2 million in MWRA sewer bonds.

The Town has voted to cap the amount of future MWRA debt that will be shifted to the tax rate at \$5,593,112 million and correspondingly increase water rates.

The Town of Arlington opened the newly constructed Thompson Elementary School in August of 2013. The final cost of construction and equipment was approximately \$20 million, 50.42% of which will be paid by the Massachusetts School Building Authority. This represents the last of the seven elementary schools of which six were fully renovated or rebuilt and one was partially renovated during the past decade.

The construction of apartments and condominiums at the Symmes Hospital site is expected to be complete by the winter of 2014.

The Town is expected to complete Phase 2 of the Community Safety Building renovation in October of 2013. The approximate cost of Phase 2 was \$2.7 million. The final phases of the Community Safety Building project are expected to be completed in the next five years.

During FY 2014, the Town will begin and complete design and engineering for the renovation of the Central Fire Station. The construction is scheduled to begin in July 2014 and the expected cost is \$5.5 million. This will complete the renovation of each of the Town's three fire stations.

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

Requests for Information

This financial report is designed to provide a general overview of the Town of Arlington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Comptroller, 869 Massachusetts Avenue, Arlington, Massachusetts 02476.

Basic Financial Statements

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STATEMENT OF NET POSITION

JUNE 30, 2013

| | <i>Primary Government</i> | | |
|---|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 55,542,234 | \$ 5,086,197 | \$ 60,628,431 |
| Investments..... | 10,097,642 | - | 10,097,642 |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate and personal property taxes..... | 7,479 | - | 7,479 |
| Real estate tax deferrals..... | 58,619 | - | 58,619 |
| Tax liens..... | 946,664 | - | 946,664 |
| Motor vehicle excise taxes..... | 324,416 | - | 324,416 |
| User fees..... | - | 5,861,787 | 5,861,787 |
| Departmental and other..... | 288,956 | - | 288,956 |
| Intergovernmental..... | 6,215,910 | - | 6,215,910 |
| Loans..... | 162,331 | - | 162,331 |
| Tax foreclosures..... | 396,784 | - | 396,784 |
| Deferred loss on refunding..... | 51,821 | - | 51,821 |
| NONCURRENT: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate tax deferrals..... | 234,475 | - | 234,475 |
| Intergovernmental..... | 10,079,298 | - | 10,079,298 |
| Loans..... | 649,323 | - | 649,323 |
| Deferred loss on refunding..... | 99,266 | - | 99,266 |
| Capital assets, net of accumulated depreciation: | | | |
| Nondepreciable..... | 33,810,546 | 554,023 | 34,364,569 |
| Depreciable..... | 105,285,490 | 21,475,255 | 126,760,745 |
| TOTAL ASSETS..... | 224,251,254 | 32,977,262 | 257,228,516 |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 3,189,983 | 209,049 | 3,399,032 |
| Accrued payroll..... | 4,547,741 | 33,259 | 4,581,000 |
| Accrued interest..... | 558,398 | - | 558,398 |
| Payroll withholdings..... | 485,598 | - | 485,598 |
| Abandoned property..... | 45,646 | - | 45,646 |
| Taxes paid in advance..... | 2,093,019 | - | 2,093,019 |
| Customer deposits payable..... | 12,900 | - | 12,900 |
| Compensated absences..... | 3,276,000 | 63,000 | 3,339,000 |
| Workers' compensation..... | 135,000 | - | 135,000 |
| Notes payable..... | 2,426,329 | - | 2,426,329 |
| Bonds payable..... | 7,469,514 | 1,301,578 | 8,771,092 |
| NONCURRENT: | | | |
| Compensated absences..... | 2,149,000 | 64,000 | 2,213,000 |
| Workers' compensation..... | 57,000 | - | 57,000 |
| Other postemployment benefits..... | 33,162,652 | 932,272 | 34,094,924 |
| Bonds payable..... | 45,442,415 | 6,580,772 | 52,023,187 |
| TOTAL LIABILITIES..... | 105,051,195 | 9,183,930 | 114,235,125 |
| NET POSITION | | | |
| Net investment in capital assets..... | 97,950,516 | 14,827,000 | 112,777,516 |
| Restricted for: | | | |
| Loans..... | 811,654 | - | 811,654 |
| Permanent funds: | | | |
| Expendable..... | 5,746,588 | - | 5,746,588 |
| Nonexpendable..... | 4,234,268 | - | 4,234,268 |
| Gifts and grants..... | 3,587,503 | - | 3,587,503 |
| Unrestricted..... | 6,869,530 | 8,966,332 | 15,835,862 |
| TOTAL NET POSITION..... | \$ 119,200,059 | \$ 23,793,332 | \$ 142,993,391 |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2013

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|--|-----------------------|----------------------|------------------------------------|----------------------------------|-------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government: | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government..... | \$ 10,813,564 | \$ 2,053,773 | \$ 272,993 | \$ - | \$ (8,486,798) |
| Public safety..... | 25,861,607 | 4,374,659 | 108,868 | - | (21,378,080) |
| Education..... | 90,812,950 | 2,164,240 | 26,803,620 | 6,013,420 | (55,831,670) |
| Public works..... | 12,993,064 | 715,042 | 19,000 | 787,547 | (11,471,475) |
| Community development..... | 5,683,462 | 430,288 | 4,470,172 | - | (783,002) |
| Human services..... | 2,023,675 | 211,075 | 488,739 | - | (1,323,861) |
| Library..... | 3,375,967 | 59,344 | 870,359 | - | (2,446,264) |
| Culture and recreation..... | 795,686 | 660,229 | 130,717 | - | (4,740) |
| Interest..... | 1,802,643 | - | 293,827 | - | (1,508,816) |
| Total Governmental Activities..... | 154,162,618 | 10,668,650 | 33,458,295 | 6,800,967 | (103,234,706) |
| <i>Business-Type Activities:</i> | | | | | |
| Water and Sewer..... | 17,587,856 | 13,126,789 | - | - | (4,461,067) |
| Youth Services..... | 465,735 | 224,617 | 51,703 | - | (189,415) |
| Council on Aging..... | 121,014 | 15,449 | 40,000 | - | (65,565) |
| Veterans' Rink..... | 601,659 | 557,404 | - | - | (44,255) |
| Recreation..... | 627,364 | 538,383 | - | - | (88,981) |
| Total Business-Type Activities..... | 19,403,628 | 14,462,642 | 91,703 | - | (4,849,283) |
| Total Primary Government..... | \$ 173,566,246 | \$ 25,131,292 | \$ 33,549,998 | \$ 6,800,967 | \$ (108,083,989) |

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2013

| | Primary Government | | |
|---|------------------------------|-----------------------------|------------------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Changes in net position: | | | |
| Net (expense) revenue from previous page..... | \$ (103,234,706) | \$ (4,849,283) | \$ (108,083,989) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 97,180,236 | - | 97,180,236 |
| Tax liens..... | 510,933 | - | 510,933 |
| Motor vehicle excise taxes..... | 4,066,173 | - | 4,066,173 |
| Hotel/motel tax..... | 283,497 | - | 283,497 |
| Meals tax..... | 326,726 | - | 326,726 |
| Penalties and interest on taxes..... | 352,869 | - | 352,869 |
| Grants and contributions not restricted to specific programs..... | 7,046,868 | - | 7,046,868 |
| Unrestricted investment income..... | 1,291,139 | 39,218 | 1,330,357 |
| Gain on sale of capital assets..... | 2,873,618 | - | 2,873,618 |
| Miscellaneous..... | 14,419 | - | 14,419 |
| <i>Transfers, net</i> | <u>(5,859,464)</u> | <u>5,859,464</u> | <u>-</u> |
| Total general revenues and transfers..... | <u>108,087,014</u> | <u>5,898,682</u> | <u>113,985,696</u> |
| Change in net position..... | 4,852,308 | 1,049,399 | 5,901,707 |
| <i>Net Position:</i> | | | |
| Beginning of year..... | <u>114,347,751</u> | <u>22,743,933</u> | <u>137,091,684</u> |
| End of year..... | \$ <u><u>119,200,059</u></u> | \$ <u><u>23,793,332</u></u> | \$ <u><u>142,993,391</u></u> |

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2013

| ASSETS | <u>General</u> | <u>Capital Borrowing Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------|---------------------------------------|--|---|
| Cash and cash equivalents..... | \$ 36,768,026 | \$ 3,203,577 | \$ 15,570,631 | \$ 55,542,234 |
| Investments..... | - | - | 10,097,642 | 10,097,642 |
| Receivables, net of uncollectibles: | | | | |
| Real estate and personal property taxes..... | 7,479 | - | - | 7,479 |
| Real estate tax deferrals..... | 293,094 | - | - | 293,094 |
| Tax liens..... | 946,664 | - | - | 946,664 |
| Motor vehicle excise taxes..... | 324,416 | - | - | 324,416 |
| Departmental and other..... | 288,956 | - | - | 288,956 |
| Intergovernmental..... | 12,327,296 | 1,302,940 | 2,664,972 | 16,295,208 |
| Loans..... | - | - | 811,654 | 811,654 |
| Tax foreclosures..... | 396,784 | - | - | 396,784 |
| TOTAL ASSETS..... | \$ 51,352,715 | \$ 4,506,517 | \$ 29,144,899 | \$ 85,004,131 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Warrants payable..... | \$ 1,239,438 | \$ 1,338,135 | \$ 612,410 | \$ 3,189,983 |
| Accrued payroll..... | 4,452,161 | - | 95,580 | 4,547,741 |
| Liabilities due depositors..... | 12,900 | - | - | 12,900 |
| Payroll withholdings..... | 485,598 | - | - | 485,598 |
| Abandoned property..... | 45,646 | - | - | 45,646 |
| Taxes paid in advance..... | 2,093,019 | - | - | 2,093,019 |
| Deferred revenues..... | 14,584,690 | - | 3,226,445 | 17,811,135 |
| Notes payable..... | - | 2,426,329 | - | 2,426,329 |
| TOTAL LIABILITIES..... | 22,913,452 | 3,764,464 | 3,934,435 | 30,612,351 |
| FUND BALANCES: | | | | |
| Nonspendable..... | - | - | 4,234,268 | 4,234,268 |
| Restricted..... | 5,036,732 | 2,669,243 | 21,132,649 | 28,838,624 |
| Committed..... | 1,256,780 | - | - | 1,256,780 |
| Assigned..... | 4,230,527 | - | - | 4,230,527 |
| Unassigned..... | 17,915,224 | (1,927,190) | (156,453) | 15,831,581 |
| TOTAL FUND BALANCES..... | 28,439,263 | 742,053 | 25,210,464 | 54,391,780 |
| TOTAL LIABILITIES AND FUND BALANCES..... | \$ 51,352,715 | \$ 4,506,517 | \$ 29,144,899 | \$ 85,004,131 |

See notes to basic financial statements.

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

JUNE 30, 2013

| | | |
|---|---------------------|-----------------------|
| Total governmental fund balances..... | | \$ 54,391,780 |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | | 139,096,036 |
| Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds..... | | 17,811,135 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | | (558,398) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds | | |
| Bonds payable..... | (51,682,000) | |
| Unamortized premium on bonds payable..... | (1,229,929) | |
| Workers' compensation..... | (192,000) | |
| Compensated absences..... | (5,425,000) | |
| Other postemployment benefits..... | <u>(33,162,652)</u> | |
| Net effect of reporting long-term liabilities..... | | (91,691,581) |
| 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>151,087</u> |
| Net position of governmental activities..... | | <u>\$ 119,200,059</u> |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

| | General | Capital Borrowing Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|------------------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 96,994,617 | \$ - | \$ 112,113 | \$ 97,106,730 |
| Tax liens..... | 384,619 | - | - | 384,619 |
| Motor vehicle excise taxes..... | 4,066,173 | - | - | 4,066,173 |
| Hotel/motel tax..... | 283,497 | - | - | 283,497 |
| Meals tax..... | 326,726 | - | - | 326,726 |
| Fees and rentals..... | - | - | 83,497 | 83,497 |
| Intergovernmental..... | 29,531,913 | 6,841,517 | 10,591,970 | 46,965,400 |
| Departmental and other..... | 4,873,336 | - | 7,988,265 | 12,861,601 |
| Contributions..... | 58,854 | - | 1,063,301 | 1,122,155 |
| Investment income..... | 115,293 | 45 | 1,175,801 | 1,291,139 |
| TOTAL REVENUES..... | 136,635,028 | 6,841,562 | 21,014,947 | 164,491,537 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 4,053,835 | 182,484 | 1,134,760 | 5,371,079 |
| Public safety..... | 14,306,801 | 2,780,161 | 1,842,936 | 18,929,898 |
| Education..... | 49,458,040 | 13,536,136 | 8,331,077 | 71,325,253 |
| Public works..... | 9,528,884 | 425,901 | 1,882,424 | 11,837,209 |
| Community development..... | 644,505 | 55,035 | 4,795,357 | 5,494,897 |
| Human services..... | 867,213 | 12,864 | 720,338 | 1,600,415 |
| Library..... | 1,974,034 | 133,900 | 235,595 | 2,343,529 |
| Culture and recreation..... | 15,296 | 65,276 | 636,233 | 716,805 |
| Pension benefits..... | 20,234,148 | - | - | 20,234,148 |
| Property and liability insurance..... | 261,950 | - | - | 261,950 |
| Employee benefits..... | 14,350,345 | - | 325,875 | 14,676,220 |
| State and county charges..... | 3,060,174 | - | - | 3,060,174 |
| Debt service: | | | | |
| Principal..... | 6,202,000 | - | 348,000 | 6,550,000 |
| Interest..... | 1,578,267 | - | 128,225 | 1,706,492 |
| TOTAL EXPENDITURES..... | 126,535,492 | 17,191,757 | 20,380,820 | 164,108,069 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | 10,099,536 | (10,350,195) | 634,127 | 383,468 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds from bonds..... | - | 5,786,650 | - | 5,786,650 |
| Proceeds from refunding bonds..... | 2,205,000 | - | - | 2,205,000 |
| Premium from issuance of bonds..... | - | - | 1,135,212 | 1,135,212 |
| Premium from issuance of refunding bonds..... | 198,118 | - | - | 198,118 |
| Payment to refunded bond escrow agent..... | (2,330,150) | - | - | (2,330,150) |
| Sale of capital assets..... | - | - | 2,873,618 | 2,873,618 |
| Transfers in..... | 415,507 | 404,760 | 2,379,469 | 3,199,736 |
| Transfers out..... | (8,243,082) | (300) | (815,818) | (9,059,200) |
| TOTAL OTHER FINANCING SOURCES (USES)... | (7,754,607) | 6,191,110 | 5,572,481 | 4,008,984 |
| NET CHANGE IN FUND BALANCES..... | 2,344,929 | (4,159,085) | 6,206,608 | 4,392,452 |
| FUND BALANCES AT BEGINNING OF YEAR..... | 26,094,334 | 4,901,138 | 19,003,856 | 49,999,328 |
| FUND BALANCES AT END OF YEAR..... | \$ 28,439,263 | \$ 742,053 | \$ 25,210,464 | \$ 54,391,780 |

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, 2013

| | | |
|--|--------------------|----------------------------|
| Net change in fund balances - total governmental funds..... | | \$ 4,392,452 |
| <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..... | 19,266,763 | |
| Depreciation expense..... | <u>(5,258,382)</u> | |
| Net effect of reporting capital assets..... | | 14,008,381 |
| <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> | | |
| | | (2,490,765) |
| <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 position. 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..... | (5,786,650) | |
| Premium from issuance of bonds, net of issue costs..... | (1,135,212) | |
| Debt service principal payments..... | 6,550,000 | |
| Proceeds from refunding bonds..... | (2,205,000) | |
| Payment to refunded bond escrow agent..... | 2,330,150 | |
| Premium from issuance of refunding costs, net of issue costs..... | <u>(90,150)</u> | |
| Net effect of reporting long-term debt..... | | (336,862) |
| Net change in accrued interest on long-term debt..... | 39,935 | |
| Amortization of issuance costs..... | (71,027) | |
| Amortization of bond premiums..... | 34,304 | |
| Amortization of deferred charge on refunding..... | <u>(134,363)</u> | |
| Net effect of reporting other debt related activity..... | | (131,151) |
| <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..... | (393,000) | |
| Net change in other postemployment benefits accrual..... | (10,230,747) | |
| Net change in workers' compensation accrual..... | <u>34,000</u> | |
| Net effect of recording long-term liabilities and amortizing deferred losses..... | | <u>(10,589,747)</u> |
| Change in net position of governmental activities..... | | \$ <u><u>4,852,308</u></u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2013

| | Business-type Activities - Enterprise Funds | | |
|---|---|---------------------------------|-----------------------------------|
| | Water and Sewer Enterprise | Youth Services Enterprise | Council On Aging Enterprise |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 4,582,149 | \$ 54,737 | \$ 118,318 |
| Receivables, net of allowance for uncollectibles: | | | |
| User fees..... | 5,861,787 | - | - |
| Total current assets..... | <u>10,443,936</u> | <u>54,737</u> | <u>118,318</u> |
| NONCURRENT: | | | |
| Capital assets, net of accumulated depreciation: | | | |
| Nondepreciable..... | 96,757 | - | - |
| Depreciable..... | 19,580,537 | - | 34,213 |
| Total noncurrent assets..... | <u>19,677,294</u> | <u>-</u> | <u>34,213</u> |
| TOTAL ASSETS..... | <u>30,121,230</u> | <u>54,737</u> | <u>152,531</u> |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 201,537 | 7,512 | - |
| Accrued payroll..... | 15,511 | 5,762 | 1,399 |
| Compensated absences..... | 51,000 | - | - |
| Bonds payable..... | 1,186,578 | - | - |
| Total current liabilities..... | <u>1,454,626</u> | <u>13,274</u> | <u>1,399</u> |
| NONCURRENT: | | | |
| Compensated absences..... | 55,000 | - | - |
| Other postemployment benefits obligation..... | 518,825 | 105,676 | 15,873 |
| Bonds payable..... | 5,715,772 | - | - |
| Total noncurrent liabilities..... | <u>6,289,597</u> | <u>105,676</u> | <u>15,873</u> |
| TOTAL LIABILITIES..... | <u>7,744,223</u> | <u>118,950</u> | <u>17,272</u> |
| NET POSITION | | | |
| Net investment in capital assets..... | 13,349,179 | - | 34,213 |
| Unrestricted..... | 9,027,828 | (64,213) | 101,046 |
| TOTAL NET POSITION..... | <u>\$ 22,377,007</u> | <u>\$ (64,213)</u> | <u>\$ 135,259</u> |

See notes to basic financial statements.

| Veterans' Rink Enterprise | Recreation Enterprise | Total |
|---------------------------------|--------------------------|---------------|
| \$ 199,826 | \$ 131,167 | \$ 5,086,197 |
| - | - | 5,861,787 |
| 199,826 | 131,167 | 10,947,984 |
| - | 457,266 | 554,023 |
| 1,147,166 | 713,339 | 21,475,255 |
| 1,147,166 | 1,170,605 | 22,029,278 |
| 1,346,992 | 1,301,772 | 32,977,262 |
| - | - | 209,049 |
| 3,506 | 7,081 | 33,259 |
| 12,000 | - | 63,000 |
| 115,000 | - | 1,301,578 |
| 130,506 | 7,081 | 1,606,886 |
| 9,000 | - | 64,000 |
| 86,343 | 205,555 | 932,272 |
| 865,000 | - | 6,580,772 |
| 960,343 | 205,555 | 7,577,044 |
| 1,090,849 | 212,636 | 9,183,930 |
| 273,003 | 1,170,605 | 14,827,000 |
| (16,860) | (81,469) | 8,966,332 |
| \$ 256,143 | \$ 1,089,136 | \$ 23,793,332 |

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

FISCAL YEAR ENDED JUNE 30, 2013

| | Business-type Activities - Enterprise Funds | | |
|--|---|---------------------------------|-----------------------------------|
| | Water and Sewer Enterprise | Youth Services Enterprise | Council On Aging Enterprise |
| OPERATING REVENUES: | | | |
| Charges for services | \$ 12,802,789 | \$ 224,617 | \$ 15,449 |
| Intergovernmental..... | - | 51,703 | 40,000 |
| TOTAL OPERATING REVENUES | 12,802,789 | 276,320 | 55,449 |
| OPERATING EXPENSES: | | | |
| Salaries and wages..... | 1,941,727 | 266,617 | 76,185 |
| Cost of services and administration | 1,114,810 | 189,394 | 33,271 |
| MWRA Assessment..... | 12,110,300 | - | - |
| Depreciation..... | 649,000 | - | 6,670 |
| Employee benefits | 1,699,544 | 9,724 | 4,888 |
| TOTAL OPERATING EXPENSES | 17,515,381 | 465,735 | 121,014 |
| OPERATING INCOME (LOSS)..... | (4,712,592) | (189,415) | (65,565) |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Investment income..... | 39,218 | - | - |
| Interest expense..... | (72,475) | - | - |
| Intergovernmental..... | 324,000 | - | - |
| TOTAL NONOPERATING REVENUES, (EXPENSES), NET..... | 290,743 | - | - |
| INCOME (LOSS) BEFORE TRANSFERS..... | (4,421,849) | (189,415) | (65,565) |
| TRANSFERS: | | | |
| Transfers in..... | 5,607,963 | 149,446 | 53,769 |
| Transfers out..... | - | - | - |
| TOTAL OPERATING TRANSFERS..... | 5,607,963 | 149,446 | 53,769 |
| CHANGE IN NET POSITION..... | 1,186,114 | (39,969) | (11,796) |
| NET POSITION AT BEGINNING OF YEAR..... | 21,190,893 | (24,244) | 147,055 |
| NET POSITION AT END OF YEAR..... | \$ 22,377,007 | \$ (64,213) | \$ 135,259 |

See notes to basic financial statements.

| | Veterans' Rink Enterprise | Recreation Enterprise | Total |
|----|---------------------------------|--------------------------|----------------------|
| \$ | 557,404 | \$ 538,383 | \$ 14,138,642 |
| | - | - | 91,703 |
| | <u>557,404</u> | <u>538,383</u> | <u>14,230,345</u> |
| | 248,237 | 281,257 | 2,814,023 |
| | 209,743 | 179,231 | 1,726,449 |
| | - | - | 12,110,300 |
| | 69,198 | 66,718 | 791,586 |
| | <u>74,481</u> | <u>100,158</u> | <u>1,888,795</u> |
| | <u>601,659</u> | <u>627,364</u> | <u>19,331,153</u> |
| | <u>(44,255)</u> | <u>(88,981)</u> | <u>(5,100,808)</u> |
| | - | - | 39,218 |
| | - | - | (72,475) |
| | <u>-</u> | <u>-</u> | <u>324,000</u> |
| | <u>-</u> | <u>-</u> | <u>290,743</u> |
| | <u>(44,255)</u> | <u>(88,981)</u> | <u>(4,810,065)</u> |
| | 52,782 | - | 5,863,960 |
| | <u>(4,496)</u> | <u>-</u> | <u>(4,496)</u> |
| | <u>48,286</u> | <u>-</u> | <u>5,859,464</u> |
| | 4,031 | (88,981) | 1,049,399 |
| | <u>252,112</u> | <u>1,178,117</u> | <u>22,743,933</u> |
| \$ | <u>256,143</u> | \$ <u>1,089,136</u> | \$ <u>23,793,332</u> |

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2013

| | 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..... | \$ 12,247,938 | \$ 224,617 | \$ 15,449 |
| Receipts from other governments..... | - | 51,703 | 40,000 |
| Payments to vendors..... | (14,602,558) | (189,872) | (33,271) |
| Payments to employees..... | (1,938,774) | (265,755) | (76,248) |
| NET CASH FROM OPERATING ACTIVITIES..... | (4,293,394) | (179,307) | (54,070) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Transfers in..... | 5,607,963 | 149,446 | 53,769 |
| Transfers out..... | - | - | - |
| Intergovernmental subsidy..... | 324,000 | - | - |
| NET CASH FROM NONCAPITAL FINANCING ACTIVITIES..... | 5,931,963 | 149,446 | 53,769 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Proceeds from the issuance of bonds and notes..... | 1,751,000 | - | - |
| Acquisition and construction of capital assets..... | (2,152,195) | - | - |
| Principal payments on bonds and notes..... | (1,063,295) | - | - |
| Interest expense..... | (72,475) | - | - |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | (1,536,965) | - | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Investment income..... | 39,218 | - | - |
| NET CHANGE IN CASH AND CASH EQUIVALENTS..... | 140,822 | (29,861) | (301) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 4,441,327 | 84,598 | 118,619 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | \$ 4,582,149 | \$ 54,737 | \$ 118,318 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH | | | |
| FROM OPERATING ACTIVITIES: | | | |
| Operating income (loss)..... | \$ (4,712,592) | \$ (189,415) | \$ (65,565) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | |
| Depreciation..... | 649,000 | - | 6,670 |
| Changes in assets and liabilities: | | | |
| User fees..... | (554,851) | - | - |
| Warrants payable..... | 145,392 | (478) | - |
| Accrued payroll..... | 2,953 | 862 | (63) |
| Accrued compensated absences..... | - | - | - |
| Other postemployment benefits..... | 176,704 | 9,724 | 4,888 |
| Total adjustments..... | 419,198 | 10,108 | 11,495 |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ (4,293,394) | \$ (179,307) | \$ (54,070) |

See notes to basic financial statements.

| Veterans' Rink Enterprise | Recreation Enterprise | Total |
|---------------------------------|--------------------------|-----------------------|
| \$ 557,404 | \$ 538,383 | \$ 13,583,791 |
| - | - | 91,703 |
| (259,667) | (227,608) | (15,312,976) |
| <u>(245,311)</u> | <u>(283,188)</u> | <u>(2,809,276)</u> |
| <u>52,426</u> | <u>27,587</u> | <u>(4,446,758)</u> |
| 52,782 | - | 5,863,960 |
| (4,496) | - | (4,496) |
| <u>-</u> | <u>-</u> | <u>324,000</u> |
| <u>48,286</u> | <u>-</u> | <u>6,183,464</u> |
| 280,000 | - | 2,031,000 |
| (174,163) | (22,600) | (2,348,958) |
| (100,000) | - | (1,163,295) |
| <u>-</u> | <u>-</u> | <u>(72,475)</u> |
| <u>5,837</u> | <u>(22,600)</u> | <u>(1,553,728)</u> |
| <u>-</u> | <u>-</u> | <u>39,218</u> |
| 106,549 | 4,987 | 222,196 |
| <u>93,277</u> | <u>126,180</u> | <u>4,864,001</u> |
| <u>\$ 199,826</u> | <u>\$ 131,167</u> | <u>\$ 5,086,197</u> |
| \$ (44,255) | \$ (88,981) | \$ (5,100,808) |
| 69,198 | 66,718 | 791,586 |
| - | - | (554,851) |
| (2,035) | (384) | 142,495 |
| (74) | (1,931) | 1,747 |
| 3,000 | - | 3,000 |
| <u>26,592</u> | <u>52,165</u> | <u>270,073</u> |
| <u>96,681</u> | <u>116,568</u> | <u>654,050</u> |
| <u>\$ 52,426</u> | <u>\$ 27,587</u> | <u>\$ (4,446,758)</u> |

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

| | Pension Trust Fund (as of December 31, 2012) | Other Postemployment Benefit Trust Fund | Private Purpose Trust Funds | Agency Funds |
|--|---|--|-----------------------------------|-----------------|
| ASSETS | | | | |
| Cash and cash equivalents..... | \$ 10,171,287 | \$ - | \$ 260,641 | \$ 25,066 |
| Investments: | | | | |
| U.S. Treasury Bonds..... | - | - | 669,350 | - |
| Corporate Bonds..... | - | - | 1,157,166 | - |
| Government Sponsored Enterprises..... | - | - | 37,449 | - |
| Equity Mutual Funds..... | 5,006,891 | 5,569,643 | - | - |
| Equity Securities..... | - | - | 3,209,872 | - |
| PRIT..... | 102,541,960 | - | - | - |
| Receivables, net of allowance for uncollectibles: | | | | |
| Departmental and other..... | 800 | - | - | - |
| Interest and dividends..... | 1,218 | - | - | - |
| TOTAL ASSETS..... | 117,722,156 | 5,569,643 | 5,334,478 | 25,066 |
| LIABILITIES | | | | |
| Warrants payable..... | 411,000 | - | 1,002 | 5,212 |
| Liabilities due depositors..... | - | - | - | 19,854 |
| TOTAL LIABILITIES..... | 411,000 | - | 1,002 | 25,066 |
| NET POSITION | | | | |
| Held in trust for pension and OPEB benefits and other purposes..... | \$ <u>117,311,156</u> | \$ <u>5,569,643</u> | \$ <u>5,333,476</u> | \$ <u>-</u> |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

| | Pension Trust Fund (as of December 31, 2012) | Other Postemployment Benefit Trust Fund | Private Purpose Trust Funds |
|---|---|--|-----------------------------------|
| ADDITIONS: | | | |
| Contributions: | | | |
| Employer..... | \$ 8,864,844 | \$ 547,877 | \$ - |
| Employee..... | 2,909,659 | - | - |
| Private donations..... | - | - | 402,164 |
| Total contributions..... | 11,774,503 | 547,877 | 402,164 |
| Net investment income (loss): | | | |
| Net change in fair value of investments..... | 13,795,629 | 536,798 | 472,926 |
| Investment income..... | 28,074 | - | 138,947 |
| Total investment income (loss)..... | 13,823,703 | 536,798 | 611,873 |
| Less: investment expense..... | (605,385) | - | - |
| Net investment income (loss)..... | 13,218,318 | 536,798 | 611,873 |
| Intergovernmental..... | 435,064 | - | - |
| Transfers from other systems..... | 512,043 | - | - |
| TOTAL ADDITIONS..... | 25,939,928 | 1,084,675 | 1,014,037 |
| DEDUCTIONS: | | | |
| Administration..... | 252,848 | - | - |
| Transfers to other systems..... | 826,904 | - | - |
| Retirement benefits and refunds..... | 16,973,377 | - | - |
| Human services..... | - | - | 11,656 |
| Educational scholarships..... | - | - | 480,949 |
| TOTAL DEDUCTIONS..... | 18,053,129 | - | 492,605 |
| CHANGE IN NET POSITION..... | 7,886,799 | 1,084,675 | 521,432 |
| NET POSITION AT BEGINNING OF YEAR..... | 109,424,357 | 4,484,968 | 4,812,044 |
| NET POSITION AT END OF YEAR..... | \$ 117,311,156 | \$ 5,569,643 | \$ 5,333,476 |

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 Career & Technical High School along with other municipalities to pool resources and share the costs, risk and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified recipients. The Town has no equity interest in this joint venture. For fiscal year 2013, the Town’s annual assessment totaled

\$3,022,146. Complete financial statements for the Minuteman Career & Technical High School can be obtained by contacting their administrative offices at 758 Marrett Road, Lexington, Massachusetts 02421.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

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

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

Program revenues include the following:

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

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

The *recreation enterprise fund* is used to account for the recreation activities.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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

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

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with

an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

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

Property taxes are levied and based on values assessed on January 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, fire alarm renewal fees and insurance reimbursements and are recorded as receivables in the fiscal year accrued.

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

Intergovernmental

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

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

Loans

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

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

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

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

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

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

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

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

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

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

Governmental Fund Financial Statements

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

H. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town did not have any items that qualify for reporting in this category.

I. 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 position 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.

J. 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.

K. 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.

L. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

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

Net position has been "restricted for" the following:

"Loans" represents community development outstanding loan receivable balances.

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

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

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

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

Fund Financial Statements (Fund Balances)

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

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

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

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

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

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

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

M. 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 position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Governmental Fund Financial Statements

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

N. 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.

O. 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.

P. Use of Estimates

Government-Wide and Fund Financial Statements

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

Q. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment

Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

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

The Pension System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Funds held in the Other Postemployment Benefit (OPEB) Trust Fund are held under the supervision and investment management of the Town’s Contributory Retirement Board. The Town Treasurer is the custodian of the OPEB Trust Fund. Investments of approximately \$5.6 million in the OPEB Trust Fund are included within the Town’s investments balance in the following disclosures.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Arlington’s deposits may not be returned to it. The Town’s established policy is to fully collateralize all deposits. At fiscal year-end, the carrying amount of deposits totaled \$21,700,781 and the bank balance totaled \$25,803,925. Of the bank balance, \$1,042,093 was covered by Federal Depository Insurance, \$2,753,773 was covered by Depositors Insurance Fund, and \$22,008,059 was fully collateralized. Accordingly, none of the Town’s deposits are exposed to custodial credit risk.

At December 31, 2012, carrying amount of deposits for the Pension System totaled \$464,028 and the bank balance totaled \$831,053. All of the bank balance was covered by the Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

Investments

As of June 30, 2013, the Town of Arlington had the following investments:

| Investment Type | Fair Value | Maturity | | | |
|---------------------------------------|---------------|--------------|--------------|--------------|---------------|
| | | Under 1 Year | 1-5 Years | 6-10 Years | Over 10 Years |
| Debt Securities: | | | | | |
| U.S. Treasury Bonds..... | \$ 2,001,452 | \$ 101,875 | \$ 605,481 | \$ 819,807 | \$ 474,289 |
| Corporate Bonds..... | 3,460,086 | 102,454 | 1,593,811 | 960,993 | 802,828 |
| Government Sponsored Enterprises..... | 111,978 | - | - | 111,978 | - |
| Total Debt Securities..... | 5,573,516 | \$ 204,329 | \$ 2,199,292 | \$ 1,892,778 | \$ 1,277,117 |
| Other Investments: | | | | | |
| Mutual Funds..... | 5,569,643 | | | | |
| Equity Securities..... | 9,597,963 | | | | |
| Money Market Mutual Funds..... | 401,299 | | | | |
| MMDT..... | 38,812,058 | | | | |
| Total Investments..... | \$ 59,954,479 | | | | |

As of December 31, 2012, the Pension System had the following investments:

| | | |
|--------------------------------|----|---------------------------|
| PRIT..... | \$ | 102,541,960 |
| Money Market Mutual Funds..... | | 9,707,259 |
| Equity Mutual Funds..... | | <u>5,006,891</u> |
| Total Investments..... | \$ | <u><u>117,256,110</u></u> |

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

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 10.37 years.

Custodial Credit Risk – Investments

The Town’s policy related to custodial credit risk is to apply the guidelines established by Massachusetts General Law and to invest in institutions which are financially strong. As of June 30, 2013, the Town’s investments in MMDT which totaled \$38,812,058 are not subject to custodial credit risk exposure because they are not evidenced by securities that exist in physical or book-entry form. The Town has custodial credit risk exposure related to the \$9,597,963 in equity securities because these securities are uninsured, unregistered and held by the counterparty.

The Pension System does not have an investment policy for custodial credit risk. At December 31, 2012, the System’s investments in PRIT and open-end mutual funds totaling \$117,256,110 are not subject to custodial credit risk exposure because they are not evidenced by securities that exist in physical or book-entry form.

Interest Rate Risk

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

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

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

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer or backer. The Town’s policy related to Credit Risk consists of tracking the credit worthiness of specific financial institutions at least semiannually. The current practice is to review credit risk quarterly. At June 30, 2013 the Town’s investments were rated as follows:

| Quality Ratings | Corporate Bonds | Government Sponsored Enterprises |
|-----------------|---------------------|----------------------------------|
| AAA..... | \$ 328,362 | \$ - |
| AA+..... | 372,900 | 111,978 |
| AA..... | 136,000 | - |
| AA-..... | 294,861 | - |
| A+..... | 648,889 | - |
| A..... | 185,997 | - |
| A-..... | 1,086,361 | - |
| BBB..... | 207,186 | - |
| BBB-..... | 115,790 | - |
| Not rated..... | 83,740 | - |
| Fair Value..... | <u>\$ 3,460,086</u> | <u>\$ 111,978</u> |

The Town’s investment in MMDT is 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.

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

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

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

NOTE 3 – RECEIVABLES

At June 30, 2013, receivables for the individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|--|--------------------------|------------------------------------|--------------------------|
| <u>Receivables:</u> | | | |
| Real estate and personal property taxes..... | \$ 7,479 | \$ - | \$ 7,479 |
| Real estate tax deferrals..... | 293,094 | - | 293,094 |
| Tax liens..... | 946,664 | - | 946,664 |
| Motor vehicle excise taxes..... | 784,132 | (459,716) | 324,416 |
| Departmental and other..... | 289,182 | (226) | 288,956 |
| Intergovernmental..... | 16,295,208 | - | 16,295,208 |
| Loans..... | 811,654 | - | 811,654 |
| Total..... | <u>\$ 19,427,413</u> | <u>\$ (459,942)</u> | <u>\$ 18,967,471</u> |

At June 30, 2013, receivables for the proprietary funds consist of the following:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---------------------------|-----------------|------------------------------------|---------------|
| <u>Receivables:</u> | | | |
| Water and sewer fees..... | \$ 5,861,787 | \$ - | \$ 5,861,787 |

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

| | General Fund | Other Governmental Funds | Total |
|--|--------------------------|--------------------------------|--------------------------|
| <u>Receivable and other asset type:</u> | | | |
| Real estate and personal property taxes..... | \$ 7,480 | \$ - | \$ 7,480 |
| Real estate tax deferrals..... | 293,094 | - | 293,094 |
| Tax liens..... | 946,664 | - | 946,664 |
| Motor vehicle excise taxes..... | 324,416 | - | 324,416 |
| Departmental and other..... | 288,956 | - | 288,956 |
| State school construction funds..... | 12,327,296 | - | 12,327,296 |
| Intergovernmental..... | - | 2,414,791 | 2,414,791 |
| Loans..... | - | 811,654 | 811,654 |
| Tax foreclosures..... | 396,784 | - | 396,784 |
| Total..... | <u>\$ 14,584,690</u> | <u>\$ 3,226,445</u> | <u>\$ 17,811,135</u> |

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, 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..... | 8,970,601 | 15,985,484 | (1,671,132) | 23,284,953 |
| Total capital assets not being depreciated..... | 19,496,194 | 15,985,484 | (1,671,132) | 33,810,546 |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings..... | 111,756,204 | - | (403,600) | 111,352,604 |
| Improvements..... | 14,123,229 | 1,946,373 | (49,210) | 16,020,392 |
| Vehicles and equipment..... | 10,804,474 | 1,263,831 | (784,592) | 11,283,713 |
| Infrastructure..... | 64,779,089 | 1,742,207 | - | 66,521,296 |
| Total capital assets being depreciated..... | 201,462,996 | 4,952,411 | (1,237,402) | 205,178,005 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings..... | (44,410,644) | (2,146,923) | 403,600 | (46,153,967) |
| Improvements..... | (3,102,113) | (777,552) | 49,210 | (3,830,455) |
| Vehicles and equipment..... | (7,126,955) | (888,816) | 784,592 | (7,231,179) |
| Infrastructure..... | (41,231,823) | (1,445,091) | - | (42,676,914) |
| Total accumulated depreciation..... | (95,871,535) | (5,258,382) | 1,237,402 | (99,892,515) |
| Total capital assets being depreciated, net..... | 105,591,461 | (305,971) | - | 105,285,490 |
| Total governmental activities capital assets, net..... | \$ 125,087,655 | \$ 15,679,513 | \$ (1,671,132) | \$ 139,096,036 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|---------------------|-----------------|----------------------|
| Business-type activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 2,954 | \$ - | \$ - | \$ 2,954 |
| Construction in progress..... | 519,289 | 31,780 | - | 551,069 |
| Total capital assets not being depreciated..... | <u>522,243</u> | <u>31,780</u> | <u>-</u> | <u>554,023</u> |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings..... | 730,566 | - | - | 730,566 |
| Improvements..... | 1,914,015 | 174,163 | - | 2,088,178 |
| Vehicles and equipment..... | 3,102,125 | 22,600 | (41,584) | 3,083,141 |
| Infrastructure..... | 19,990,985 | 2,120,415 | - | 22,111,400 |
| Total capital assets being depreciated..... | <u>25,737,691</u> | <u>2,317,178</u> | <u>(41,584)</u> | <u>28,013,285</u> |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings..... | (201,389) | (15,119) | - | (216,508) |
| Improvements..... | (208,100) | (107,067) | - | (315,167) |
| Vehicles and equipment..... | (967,629) | (289,718) | 41,584 | (1,215,763) |
| Infrastructure..... | (4,410,910) | (379,682) | - | (4,790,592) |
| Total accumulated depreciation..... | <u>(5,788,028)</u> | <u>(791,586)</u> | <u>41,584</u> | <u>(6,538,030)</u> |
| Total capital assets being depreciated, net..... | <u>19,949,663</u> | <u>1,525,592</u> | <u>-</u> | <u>21,475,255</u> |
| Total business-type activities capital assets, net..... | <u>\$ 20,471,906</u> | <u>\$ 1,557,372</u> | <u>\$ -</u> | <u>\$ 22,029,278</u> |

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

Governmental Activities:

| | |
|-------------------------------------|---------------|
| General government..... | \$ 325,838 |
| Public safety..... | 568,678 |
| Education..... | 2,026,074 |
| Public works..... | 1,889,025 |
| Property and natural resources..... | 132,710 |
| Community development..... | 97,694 |
| Human services..... | 15,210 |
| Library..... | 174,845 |
| Culture and recreation..... | <u>28,308</u> |

Total depreciation expense - governmental activities..... \$ 5,258,382

Business-Type Activities:

| | |
|-----------------------|---------------|
| Water and sewer..... | \$ 649,000 |
| Council on aging..... | 6,670 |
| Veterans' rink..... | 69,198 |
| Recreation..... | <u>66,718</u> |

Total depreciation expense - business-type activities..... \$ 791,586

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

| Transfers In: | Transfers Out: | | | | Total |
|---------------------------------------|---------------------|------------------------|-----------------------------|----------------------|---------------------|
| | General Fund | Capital Borrowing Fund | Nonmajor Governmental Funds | Rink Enterprise Fund | |
| General Fund..... | \$ - | \$ 300 | \$ 410,711 | \$ 4,496 | \$ 415,507 (1) |
| Capital Borrowing Fund..... | 379,760 | - | 25,000 | - | 404,760 (2) |
| Nonmajor Governmental Funds..... | 2,015,631 | - | 363,838 | - | 2,379,469 (3) |
| Water and Sewer Enterprise Fund..... | 5,607,963 | - | - | - | 5,607,963 (4) |
| Youth Services Enterprise Fund..... | 149,446 | - | - | - | 149,446 (4) |
| Council On Aging Enterprise Fund..... | 37,500 | - | 16,269 | - | 53,769 (4) |
| Veterans' Rink Enterprise Fund..... | 52,782 | 174,163 | - | - | 226,945 (4) |
| Totals..... | \$ <u>8,243,082</u> | \$ <u>174,463</u> | \$ <u>815,818</u> | \$ <u>4,496</u> | \$ <u>9,237,859</u> |

- (1) Represents budgeted transfers to the general fund from the conservation commission, central school, ambulance revolving, recycling revolving, and sale of lots and graves nonmajor governmental funds, and the veterans' rink enterprise fund. Also represents a transfer for closing an old capital project fund.
- (2) Represents budgeted transfers from the general fund to the capital borrowing fund for the community safety building and reserve fund transfers. Also represents a transfer from capital tax levy funds within nonmajor governmental funds to capital borrowing funds.
- (3) Represents budgeted transfers to nonmajor governmental funds from the general fund which primarily consist of the Town's budgeted share of capital projects, transfers to the town special revenue funds and a transfer to the employee insurance mitigation fund. Also represents transfers within nonmajor governmental funds.
- (4) Represents budgeted transfers from the general fund to the water and sewer, youth services, veterans' rink, recreation and council on aging enterprise funds. Represents transfers from nonmajor governmental grant funds to the council on aging enterprise funds. Also represents a capital contribution from the capital borrowing funds to the veterans' rink enterprise fund representing the rink renovations project.

NOTE 6 – SHORT-TERM FINANCING

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

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

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

As of June 30, 2013, the Town had the following short-term debt outstanding:

| Type | Purpose | Rate (%) | Due Date | Balance at June 30, 2012 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2013 |
|------------|--------------------------|----------|----------|--------------------------|-----------------|-------------------|--------------------------|
| BAN | School Construction..... | 0.75 | 11/15/12 | \$ 314 | \$ - | \$ (314) | \$ - |
| BAN | School Construction..... | 1.00 | 11/15/13 | - | 2,426,329 | - | 2,426,329 |
| Total..... | | | | \$ 314 | \$ 2,426,329 | \$ (314) | \$ 2,426,329 |

NOTE 7 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2013, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

| Project | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2012 | Issued | Redeemed | Outstanding at June 30, 2013 |
|--------------------------------|--------------------|----------------------|-------------------|------------------------------|--------------|----------------|------------------------------|
| Municipal Purpose - 2003..... | 2024 | \$ 7,392,000 | 4.50 | \$ 2,850,000 | \$ - | \$ (2,550,000) | \$ 300,000 |
| Municipal Purpose - 2004..... | 2015 | 3,980,000 | 2.50-3.75 | 990,000 | - | (330,000) | 660,000 |
| GOB Refunding - 2005..... | 2017 | 3,100,000 | 3.00-5.00 | 1,980,000 | - | (370,000) | 1,610,000 |
| GOB Refunding - 2005..... | 2017 | 2,630,000 | 3.00-5.00 | 1,360,000 | - | (280,000) | 1,080,000 |
| Municipal Purpose - 2005..... | 2021 | 5,171,000 | 2.80-4.13 | 2,130,000 | - | (285,000) | 1,845,000 |
| Municipal Purpose - 2006..... | 2026 | 3,320,952 | 4.00-5.50 | 3,850,000 | - | (300,000) | 3,550,000 |
| Municipal Purpose - 2007..... | 2018 | 3,102,000 | 3.75-4.75 | 1,525,000 | - | (375,000) | 1,150,000 |
| GOB Refunding - 2007..... | 2018 | 11,690,000 | 3.75-5.00 | 7,395,000 | - | (1,330,000) | 6,065,000 |
| Municipal Purpose - 2007..... | 2018 | 100,000 | 3.75-4.5 | 60,000 | - | (10,000) | 50,000 |
| Municipal Purpose - 2008..... | 2019 | 3,875,000 | 3.00-3.62 | 2,115,000 | - | (585,000) | 1,530,000 |
| Symmes Property..... | 2022 | 5,262,000 | 2.00-4.00 | 4,515,000 | - | (395,000) | 4,120,000 |
| Municipal Purpose - 2009..... | 2020 | 2,482,000 | 2.00-3.00 | 1,915,000 | - | (280,000) | 1,635,000 |
| Municipal Purpose - 2010..... | 2031 | 7,258,000 | 2.00-4.00 | 6,725,000 | - | (525,000) | 6,200,000 |
| Symmes Property - taxable..... | 2019 | 840,000 | 2.00-2.50 | 840,000 | - | (135,000) | 705,000 |
| Symmes Property..... | 2022 | 470,000 | 2.00-3.00 | 470,000 | - | - | 470,000 |
| Municipal Purpose - 2012..... | 2022 | 1,329,000 | 2.00-3.00 | 1,329,000 | - | (279,000) | 1,050,000 |
| GOB Refunding - 2012..... | 2021 | 6,311,000 | 2.00-3.00 | 6,311,000 | - | (761,000) | 5,550,000 |
| Municipal Purpose - 2013..... | 2033 | 11,907,000 | 2.00-5.00 | 6,120,350 | 5,786,650 | - | 11,907,000 |
| GOB Refunding - 2013..... | 2024 | 2,205,000 | 2.00-3.00 | - | 2,205,000 | - | 2,205,000 |
| Total bonds payable..... | | | | 52,480,350 | 7,991,650 | (8,790,000) | 51,682,000 |
| Add: unamortized premium..... | | | | 129,021 | 1,135,212 | (34,304) | 1,229,929 |
| Total bonds payable, net..... | | | | \$ 52,609,371 | \$ 9,126,862 | \$ (8,824,304) | \$ 52,911,929 |

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

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|----------------------|---------------------|----------------------|
| 2014..... | \$ 7,257,000 | \$ 1,635,175 | \$ 8,892,175 |
| 2015..... | 6,720,000 | 1,415,632 | 8,135,632 |
| 2016..... | 6,270,000 | 1,193,926 | 7,463,926 |
| 2017..... | 5,985,000 | 969,220 | 6,954,220 |
| 2018..... | 4,865,000 | 764,732 | 5,629,732 |
| 2019..... | 3,435,000 | 609,057 | 4,044,057 |
| 2020..... | 3,165,000 | 491,816 | 3,656,816 |
| 2021..... | 2,915,000 | 385,850 | 3,300,850 |
| 2022..... | 2,050,000 | 297,644 | 2,347,644 |
| 2023..... | 1,335,000 | 236,575 | 1,571,575 |
| 2024..... | 1,190,000 | 196,106 | 1,386,106 |
| 2025..... | 1,045,000 | 164,884 | 1,209,884 |
| 2026..... | 1,040,000 | 135,063 | 1,175,063 |
| 2027..... | 730,000 | 110,575 | 840,575 |
| 2028..... | 730,000 | 91,419 | 821,419 |
| 2029..... | 695,000 | 72,222 | 767,222 |
| 2030..... | 695,000 | 53,006 | 748,006 |
| 2031..... | 690,000 | 33,281 | 723,281 |
| 2032..... | 435,000 | 17,672 | 452,672 |
| 2033..... | 435,000 | 5,981 | 440,981 |
| Totals..... | <u>\$ 51,682,000</u> | <u>\$ 8,879,836</u> | <u>\$ 60,561,836</u> |

Bonds and Notes Payable Schedule – Water and Sewer Enterprise Fund

The Town is a member of the Massachusetts Water Resources Authority (MWRA) which offers its members interest free loans for various purposes. The majority of the Town’s Water and Sewer Enterprise Fund debt is issued through this program. The interest imputed on the remaining life of the 0% MWRA bonds totaled approximately \$433,000. However, the cost on a yearly basis is deemed immaterial. No adjustments have been made to recognize the imputed interest.

Details related to the outstanding indebtedness at June 30, 2013, and the debt service requirements are as follows:

| <u>Project</u> | <u>Maturities Through</u> | <u>Original Loan Amount</u> | <u>Interest Rate (%)</u> | <u>Outstanding at June 30, 2012</u> | <u>Issued</u> | <u>Redeemed</u> | <u>Outstanding at June 30, 2013</u> |
|--|---------------------------|-----------------------------|--------------------------|-------------------------------------|---------------------|-----------------------|-------------------------------------|
| Municipal Purpose - 2006..... | 2017 | \$ 2,000,000 | 4.00-5.50 | \$ 1,000,000 | \$ - | \$ (200,000) | \$ 800,000 |
| Water and Sewer Bonds - MWRA..... | 2022 | 8,483,690 | - | 3,914,645 | 1,246,000 | (733,295) | 4,427,350 |
| Municipal Purpose - 2012..... | 2022 | 1,300,000 | 2.00-3.00 | 1,300,000 | - | (130,000) | 1,170,000 |
| Municipal Purpose - 2013..... | 2033 | 505,000 | 2.00-5.00 | - | 505,000 | - | 505,000 |
| Total water and sewer enterprise fund bonds payable..... | | | | <u>\$ 6,214,645</u> | <u>\$ 1,751,000</u> | <u>\$ (1,063,295)</u> | <u>\$ 6,902,350</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> |
|-------------|---------------------|-------------------|---------------------|
| 2014..... | \$ 1,186,578 | \$ 77,981 | \$ 1,264,559 |
| 2015..... | 1,126,540 | 65,431 | 1,191,971 |
| 2016..... | 1,030,316 | 52,581 | 1,082,897 |
| 2017..... | 905,716 | 38,806 | 944,522 |
| 2018..... | 685,300 | 29,156 | 714,456 |
| 2019..... | 601,100 | 23,881 | 624,981 |
| 2020..... | 415,600 | 18,731 | 434,331 |
| 2021..... | 305,600 | 13,706 | 319,306 |
| 2022..... | 305,600 | 8,806 | 314,406 |
| 2023..... | 110,000 | 5,856 | 115,856 |
| 2024..... | 25,000 | 5,106 | 30,106 |
| 2025..... | 25,000 | 4,606 | 29,606 |
| 2026..... | 25,000 | 4,091 | 29,091 |
| 2027..... | 25,000 | 3,544 | 28,544 |
| 2028..... | 25,000 | 2,966 | 27,966 |
| 2029..... | 25,000 | 2,372 | 27,372 |
| 2030..... | 20,000 | 1,825 | 21,825 |
| 2031..... | 20,000 | 1,325 | 21,325 |
| 2032..... | 20,000 | 813 | 20,813 |
| 2033..... | 20,000 | 275 | 20,275 |
| Totals..... | <u>\$ 6,902,350</u> | <u>\$ 361,860</u> | <u>\$ 7,264,210</u> |

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

| <u>Project</u> | <u>Maturities Through</u> | <u>Original Loan Amount</u> | <u>Interest Rate (%)</u> | <u>Outstanding at June 30, 2012</u> | <u>Issued</u> | <u>Redeemed</u> | <u>Outstanding at June 30, 2013</u> |
|--|-------------------------------|-------------------------------------|----------------------------------|---|-------------------|---------------------|---|
| Municipal Purpose - 2009..... | 2020 | \$ 1,000,000 | 2.00-3.00 | \$ 800,000 | \$ - | \$ (100,000) | \$ 700,000 |
| Municipal Purpose - 2013..... | 2033 | 280,000 | 2.00-5.00 | - | 280,000 | - | 280,000 |
| Total Veteran's rink enterprise fund bonds payable..... | | | | <u>\$ 800,000</u> | <u>\$ 280,000</u> | <u>\$ (100,000)</u> | <u>\$ 980,000</u> |

Debt service requirements for the Veteran's Rink enterprise fund bonds and notes payable in future fiscal years are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|-------------------|-------------------|---------------------|
| 2014..... | \$ 115,000 | \$ 25,881 | \$ 140,881 |
| 2015..... | 115,000 | 23,356 | 138,356 |
| 2016..... | 115,000 | 20,556 | 135,556 |
| 2017..... | 115,000 | 17,431 | 132,431 |
| 2018..... | 115,000 | 14,056 | 129,056 |
| 2019..... | 115,000 | 10,431 | 125,431 |
| 2020..... | 115,000 | 6,681 | 121,681 |
| 2021..... | 15,000 | 4,506 | 19,506 |
| 2022..... | 15,000 | 3,906 | 18,906 |
| 2023..... | 15,000 | 3,306 | 18,306 |
| 2024..... | 15,000 | 2,856 | 17,856 |
| 2025..... | 15,000 | 2,556 | 17,556 |
| 2026..... | 15,000 | 2,247 | 17,247 |
| 2027..... | 15,000 | 1,919 | 16,919 |
| 2028..... | 15,000 | 1,572 | 16,572 |
| 2029..... | 15,000 | 1,216 | 16,216 |
| 2030..... | 10,000 | 913 | 10,913 |
| 2031..... | 10,000 | 663 | 10,663 |
| 2032..... | 10,000 | 406 | 10,406 |
| 2033..... | 10,000 | 138 | 10,138 |
| Totals..... | \$ <u>980,000</u> | \$ <u>144,597</u> | \$ <u>1,124,597</u> |

The Town advance refunded \$2,240,000 of general obligation bonds through the issuance of \$2,205,000 of general obligation refunding bonds on November 15, 2012. Proceeds and the net premium of the refunding bonds were used to purchase \$2,330,150 of U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered defeased and the liabilities were removed from the financial statements for the fiscal year ending June 30, 2013. Through this advance refunding, the Town has taken advantage of lower interest rates to realize a decrease in its aggregate debt service payments by approximately \$256,000 over the next 12 years. The Town also realized an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$253,000.

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 2013, \$2,474,796 of such assistance was received. Approximately \$12,945,000 will be received in future fiscal years. Of this amount, approximately \$618,000 represents reimbursement of long-term interest costs, and approximately \$12,327,000 represents reimbursement of approved construction costs. Accordingly, a \$12,327,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The net change in deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Commonwealth has modified the method for funding new projects in the school building assistance program. Under the new program, the assistance is paid to support the State's share of construction costs as they are incurred, therefore eliminating the need for the Town to fund the State's share through long-term debt. The

Thompson Elementary School project is being funded by this program. The total project is estimated to cost approximately \$20.6 million and the maximum MSBA reimbursement for approved costs is \$9.4 million. Through the end of fiscal year 2013, the Town has recorded capital grant revenue totaling approximately \$7.9 million from the MSBA which is equal to 50.42% of approved construction costs incurred to date. Of this amount, the Town has received \$6.6 million of reimbursements and anticipates receiving the remaining \$1.3 million of reimbursements in fiscal year 2014. Accordingly, the Town has recorded an intergovernmental receivable totaling \$1.3 million as of June 30, 2013.

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, 2013, the Town had the following authorized and unissued debt:

| Purpose | Amount |
|---------------------------------------|----------------------|
| Symmes Property..... | \$ 1,293,000 |
| School..... | 11,622,800 |
| Road Repairs..... | 200,000 |
| Sewer..... | 2,406,800 |
| Water..... | 3,639,000 |
| Fire Stations..... | 10,575,000 |
| Remodeling..... | 120,000 |
| Various Purposes..... | 158,258 |
| Computer..... | 415,000 |
| Building and Safety Improvements..... | 290,000 |
| Departmental Equipment..... | 1,129,300 |
| Playground..... | 526,250 |
| Cemetery..... | 400,000 |
| Flood Mitigation..... | 100,000 |
| Sidewalk..... | 65,000 |
| Total..... | <u>\$ 32,940,408</u> |

Changes in long-term liabilities

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|-------------------------------------|----------------------|----------------------|------------------------|----------------------|----------------------|
| Governmental Activities: | | | | | |
| Long-Term Bonds..... | \$ 52,480,350 | \$ 7,991,650 | \$ (8,790,000) | \$ 51,682,000 | \$ 7,257,000 |
| Add: Unamortized Premium..... | 129,021 | 1,135,212 | (34,304) | 1,229,929 | 212,514 |
| Total Long-Term Bonds..... | 52,609,371 | 9,126,862 | (8,824,304) | 52,911,929 | 7,469,514 |
| Other Postemployment Benefits..... | 22,931,905 | 16,869,566 | (6,638,819) | 33,162,652 | - |
| Workers' Compensation..... | 226,000 | 389,938 | (423,938) | 192,000 | 135,000 |
| Compensated Absences..... | 5,032,000 | 3,445,000 | (3,052,000) | 5,425,000 | 3,276,000 |
| Total governmental activities..... | \$ <u>80,799,276</u> | \$ <u>29,831,366</u> | \$ <u>(18,939,061)</u> | \$ <u>91,691,581</u> | \$ <u>10,880,514</u> |
| Business-Type Activities: | | | | | |
| Long-Term Bonds..... | \$ 7,014,645 | \$ 2,031,000 | \$ (1,163,295) | \$ 7,882,350 | \$ 1,301,578 |
| Other Postemployment Benefits..... | 662,199 | 410,274 | (140,201) | 932,272 | - |
| Compensated Absences..... | 124,000 | 69,000 | (66,000) | 127,000 | 63,000 |
| Total business-type activities..... | \$ <u>7,800,844</u> | \$ <u>2,510,274</u> | \$ <u>(1,369,496)</u> | \$ <u>8,941,622</u> | \$ <u>1,364,578</u> |

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

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

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

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

The Town's stabilization funds totaling approximately \$10,721,000 have been reported within the general fund as unassigned and the Town's municipal insurance funds totaling approximately \$5,037,000 have been reported within the general fund as restricted.

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

| | GOVERNMENTAL FUNDS | | | |
|--|----------------------|------------------------|-----------------------------|--------------------------|
| | General | Capital Borrowing Fund | Nonmajor Governmental Funds | Total Governmental Funds |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Permanent fund principal..... | \$ - | \$ - | \$ 4,234,268 | \$ 4,234,268 |
| Restricted for: | | | | |
| Municipal insurance..... | 5,036,732 | - | - | 5,036,732 |
| Capital borrowing funds..... | - | 2,669,243 | - | 2,669,243 |
| Town revolving funds..... | - | - | 1,479,787 | 1,479,787 |
| Town gift and grant funds..... | - | - | 1,478,767 | 1,478,767 |
| School lunch..... | - | - | 162,086 | 162,086 |
| School revolving funds..... | - | - | 1,681,793 | 1,681,793 |
| School gift and grant funds..... | - | - | 2,108,736 | 2,108,736 |
| Receipts reserved for appropriation..... | - | - | 3,384,340 | 3,384,340 |
| Special revenue trust funds..... | - | - | 646,736 | 646,736 |
| Employee insurance mitigation funds..... | - | - | 599,125 | 599,125 |
| Other special revenue funds..... | - | - | 2,994,955 | 2,994,955 |
| Symmes Property..... | - | - | 323,470 | 323,470 |
| Capital tax levy projects..... | - | - | 496,374 | 496,374 |
| Other capital projects..... | - | - | 25,713 | 25,713 |
| Cemeteries..... | - | - | 502,572 | 502,572 |
| Cemetery perpetual care..... | - | - | 2,997,034 | 2,997,034 |
| Libraries..... | - | - | 2,122,045 | 2,122,045 |
| Education permanent funds..... | - | - | 129,116 | 129,116 |
| Committed to: | | | | |
| General government..... | 744,971 | - | - | 744,971 |
| Public safety..... | 21,257 | - | - | 21,257 |
| Education..... | 81,507 | - | - | 81,507 |
| Public works..... | 41,373 | - | - | 41,373 |
| Library..... | 48,306 | - | - | 48,306 |
| Employee benefits..... | 73,758 | - | - | 73,758 |
| Debt service principal..... | 130,953 | - | - | 130,953 |
| Debt service interest..... | 114,655 | - | - | 114,655 |
| Assigned to: | | | | |
| General government..... | 114,381 | - | - | 114,381 |
| Public safety..... | 27,507 | - | - | 27,507 |
| Education..... | 311,862 | - | - | 311,862 |
| Public works..... | 295,837 | - | - | 295,837 |
| Community development..... | 30,739 | - | - | 30,739 |
| Library..... | 3,171 | - | - | 3,171 |
| Culture and recreation..... | 423 | - | - | 423 |
| Employee benefits..... | 35,079 | - | - | 35,079 |
| Balance the FY14 operating budget..... | 3,411,528 | - | - | 3,411,528 |
| Unassigned..... | 17,915,224 | (1,927,190) | (156,453) | 15,831,581 |
| TOTAL FUND BALANCES..... | \$ 28,439,263 | \$ 742,053 | \$ 25,210,464 | \$ 54,391,780 |

NOTE 9 – STABILIZATION FUND

At June 30, 2013, the Town has approximately \$2.7 million in a stabilization fund, which is classified as part of the general fund in the fund-based basic financial statements. The Town may use the stabilization fund for general and/or capital purposes upon Town Meeting approval.

NOTE 10 – TIP FEE 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 \$164,260 in the tip fee stabilization fund at June 30, 2013, which is recorded as part of the general fund in the fund-based financial statements. The activity of the fund in fiscal year 2013 consists of the following:

| | | |
|------------------------------------|----|-----------------------|
| Fund balance at June 30, 2012..... | \$ | 563,770 |
| Investment income..... | | 490 |
| Transfer to the general fund..... | | <u>(400,000)</u> |
| Fund balance at June 30, 2013..... | \$ | <u><u>164,260</u></u> |

NOTE 11 – FISCAL STABILITY STABILIZATION FUND

The Town created a Fiscal Stability Fund pursuant to Article 65 of the 2005 Annual Town Meeting in accordance with the provisions of the General Laws, Chapter 40, Section 5B, as amended. The fund was established to hold surplus override tax revenues for future years in which operating deficits are projected. A Special Town Meeting held on June 7, 2011 approved a general tax override of \$6,490,000 for this purpose. Through this override, the Town was able to approve approximately \$2.6 million to be raised in fiscal year 2012 and \$3.9 million to be raised in fiscal year 2013 to be transferred to the Fiscal Stability Fund to supplement future Town budgets. The Town also voted to transfer an additional \$1.4 million to the fund in fiscal year 2012 from savings in health insurance costs. As of June 30, 2013, the Fiscal Stability Fund has a balance of approximately \$7.9 million which is classified as part of the general fund in the fund-based financial statements.

NOTE 12 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. During fiscal year 2012, the Town discontinued a self-insured health insurance plan and joined the Group Insurance Commission of the Commonwealth of Massachusetts (GIC) to provide health insurance benefits for its employees and retirees. As part of the transition, the Town was required to establish an employee healthcare mitigation fund which is reported within the nonmajor governmental funds and had a year-end balance of approximately \$599,000.

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

Workers’ Compensation

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

At June 30, 2013, the amount of the liability for workers’ compensation claims totaled \$192,000. This liability is the Town’s best estimate based on available information. Changes in the reported liability since July 1, 2011, are as follows:

| | Balance at Beginning of Fiscal Year | Current Year Claims and Changes in Estimate | Claims Payments | Balance at End of Fiscal Year |
|-----------------------|---|--|--------------------|-------------------------------------|
| Fiscal Year 2012..... | \$ 472,000 | \$ 186,177 | \$ (432,177) | \$ 226,000 |
| Fiscal Year 2013..... | 226,000 | 389,938 | (423,938) | 192,000 |

NOTE 13 – PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Arlington Contributory Retirement Board (Board). Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$12.5 million for the fiscal year ended June 30, 2013, 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, 2012, the System's membership consists of the following:

| | |
|--|---------------------|
| Active members..... | 682 |
| Inactive members..... | 281 |
| Retirees and beneficiaries currently receiving benefits..... | <u>637</u> |
| Total..... | <u><u>1,600</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, 2013, 2012, and 2011 were \$8,504,185, \$8,067,526, and \$7,598,503 respectively, which equaled its required contribution for each fiscal year. At June 30, 2013, the Town did not have a net pension obligation. The fiscal year 2013 required contribution was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.50% investment rate of return and projected salary increases of 4.50% 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, 2012, was 19 years for the fresh start base that accounts for over 99% of the unfunded liability; 8 years for the 2003 early retirement incentives (ERI's); and 9 years for the 2004 ERI's.

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

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 1/1/12 | \$ 111,307 | \$ 229,785 | \$ 118,478 | 48.4% | \$ 28,611 | 414.1% |
| 1/1/11 | 121,403 | 222,496 | 101,093 | 54.6% | 28,637 | 353.0% |
| 1/1/10 | 115,704 | 211,647 | 95,943 | 54.7% | 28,904 | 331.9% |
| 1/1/08 | 144,810 | 192,195 | 47,385 | 75.3% | 27,755 | 170.7% |
| 1/1/07 | 136,510 | 186,069 | 49,559 | 73.4% | 27,140 | 182.6% |
| 1/1/06 | 123,490 | 178,655 | 55,165 | 69.1% | 26,338 | 209.5% |

NOTE 14 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town of Arlington administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s participation in the Group Insurance Commission of the Commonwealth of Massachusetts (GIC), which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. The Retiree Health Plan does not issue a publicly available financial report.

The rates range from 15% to 50% for the retiree’s co-payment of the total premium, and 50% to 85% for the Town.

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

| | |
|--|---------------------|
| Current retirees, beneficiaries, and dependents... | 1,128 |
| Current active members..... | <u>1,049</u> |
| Total..... | <u><u>2,177</u></u> |

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 75 to 85 percent of the cost of current-year premiums for eligible retired plan members and their spouses and may contribute additional amounts to pre-fund benefits. Plan members receiving benefits contribute the remaining 15 to 25 percent of their premium costs. For fiscal year 2013, the Town contributed \$6.8 million to the plan in addition to the pre-funding amount discussed below.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish the Other Postemployment Benefit Trust Fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. During fiscal year 2013, the Town pre-funded future OPEB liabilities in the amount of approximately \$548,000. The Other Postemployment Benefit Trust Fund is reported within the fiduciary funds in the fund based financial statements which carries a year-end balance totaling \$5.6 million.

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

The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

| | |
|--|-----------------------------|
| Annual Required Contribution..... | \$ 17,304,029 |
| Interest on net OPEB obligation..... | 990,952 |
| ARC Adjustment..... | <u>(1,015,141)</u> |
| Annual OPEB cost (expense)..... | 17,279,840 |
| Contributions made..... | <u>(6,779,020)</u> |
| Increase in net OPEB obligation..... | 10,500,820 |
| Net OPEB obligation - beginning of year..... | <u>23,594,104</u> |
| Net OPEB obligation - end of year..... | <u><u>\$ 34,094,924</u></u> |

Schedule of Employer Contributions

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--|---------------------|
| 6/30/2013 | \$ 17,279,840 | 39% | \$ 34,094,924 |
| 6/30/2012 | 14,657,786 | 54% | 23,594,104 |
| 6/30/2011 | 14,943,704 | 56% | 16,875,017 |

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 1/1/2012 | \$ 4,263,204 | \$ 174,062,552 | \$ 169,799,348 | 2% | \$ 56,390,000 | 301.1% |
| 1/1/2011 | 3,818,419 | 166,284,371 | 162,465,952 | 2% | 56,420,000 | 288.0% |
| 1/1/2009 | 2,594,771 | 167,296,616 | 164,746,845 | 2% | 54,207,000 | 303.8% |

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

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

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

| | |
|------------------------------------|--|
| Valuation date..... | January 1, 2012 |
| Actuarial cost method..... | Costs are based on the projected unit credit method. |
| Amortization method..... | Amortization is based on assumed payroll increase of 3.25% |
| Remaining amortization period..... | 26 years as of July 1, 2012, closed |

NOTE 15 – COMMITMENTS

As of June 30, 2013, the Town was in the final phase of completing the newly constructed Thompson Elementary School. The school opened subsequent to year end, in August of 2013. The final cost of construction and equipment was approximately \$20 million, 50.42% of which will be paid by the Massachusetts School Building Authority. This represents the last of the seven elementary schools of which six were fully renovated or rebuilt and one was partially renovated during the past decade.

The construction of apartments and condominiums at the Symmes Hospital site is expected to be complete by the winter of 2014.

The Town is expected to complete Phase 2 of the Community Safety Building renovation in October of 2013. The approximate cost of Phase 2 was \$2.7 million. The final phases of the Community Safety Building project are expected to be completed in the next five years.

During FY 2014, the Town will begin and complete design and engineering for the renovation of the Central Fire Station. The construction is scheduled to begin in July 2014 and the expected cost is \$5.5 million. This will complete the renovation of each of the Town's three fire stations.

NOTE 16 – CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2013, 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, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2013, the following GASB pronouncements were implemented:

- GASB Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #61, *The Financial Reporting Entity: Omnibus*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.

- GASB Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. The implementation of this pronouncement did not impact the basic financial statements.

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

- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

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Required Supplementary Information

General Fund Budgetary Comparison Schedule

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

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

FISCAL YEAR ENDED JUNE 30, 2013

| | 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..... | \$ - | \$ 96,443,064 | \$ 96,443,064 | \$ 96,443,064 |
| Tax liens..... | - | - | - | - |
| Motor vehicle excise taxes..... | - | 3,700,000 | 3,700,000 | 3,700,000 |
| Hotel/motel tax..... | - | 250,000 | 250,000 | 250,000 |
| Meals tax..... | - | 300,000 | 300,000 | 300,000 |
| Intergovernmental..... | - | 17,495,709 | 17,495,709 | 17,495,709 |
| Departmental and other..... | - | 4,113,000 | 4,113,000 | 4,113,000 |
| Investment income..... | - | 50,000 | 50,000 | 50,000 |
| TOTAL REVENUES..... | - | 122,351,773 | 122,351,773 | 122,351,773 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 1,325,633 | 5,526,679 | 6,852,312 | 5,235,243 |
| Public safety..... | 59,801 | 13,318,614 | 13,378,415 | 14,258,769 |
| Education..... | 4,134,314 | 47,664,744 | 51,799,058 | 52,769,058 |
| Public works..... | 864,670 | 8,309,692 | 9,174,362 | 9,327,175 |
| Community development..... | 11,955 | 692,505 | 704,460 | 716,304 |
| Human services..... | 1,439 | 850,768 | 852,207 | 874,820 |
| Library..... | - | 2,045,901 | 2,045,901 | 2,085,187 |
| Culture and recreation..... | 703 | 17,427 | 18,130 | 17,877 |
| Pension benefits..... | - | 7,710,766 | 7,710,766 | 7,710,766 |
| Property and liability insurance..... | - | 320,625 | 320,625 | 320,625 |
| Employee benefits..... | 780 | 14,805,214 | 14,805,994 | 14,882,068 |
| State and county charges..... | - | 2,969,058 | 2,969,058 | 2,969,058 |
| Debt service: | | | | |
| Principal..... | 70,975 | 6,261,678 | 6,332,653 | 6,332,953 |
| Interest..... | 69,340 | 1,623,582 | 1,692,922 | 1,692,922 |
| TOTAL EXPENDITURES..... | 6,539,610 | 112,117,253 | 118,656,863 | 119,192,825 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES..... | (6,539,610) | 10,234,520 | 3,694,910 | 3,158,948 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in..... | - | 815,207 | 815,207 | 815,207 |
| Transfers out..... | - | (11,835,977) | (11,835,977) | (12,270,316) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | - | (11,020,770) | (11,020,770) | (11,455,109) |
| NET CHANGE IN FUND BALANCE..... | (6,539,610) | (786,250) | (7,325,860) | (8,296,161) |
| BUDGETARY FUND BALANCE, Beginning of year..... | 16,446,438 | 16,446,438 | 16,446,438 | 16,446,438 |
| BUDGETARY FUND BALANCE, End of year..... | \$ 9,906,828 | \$ 15,660,188 | \$ 9,120,578 | \$ 8,150,277 |

See notes to required supplementary information.

| | Actual Budgetary Amounts | Amounts Carried Forward To Next Year | Variance to Final Budget |
|----|--------------------------------|--|--------------------------------|
| \$ | 97,085,800 | \$ - | \$ 642,736 |
| | 384,619 | - | 384,619 |
| | 4,066,173 | - | 366,173 |
| | 283,497 | - | 33,497 |
| | 326,726 | - | 26,726 |
| | 17,826,520 | - | 330,811 |
| | 4,873,336 | - | 760,336 |
| | 82,946 | - | 32,946 |
| | <u>124,929,617</u> | <u>-</u> | <u>2,577,844</u> |
| | 3,977,501 | 859,352 | 398,390 |
| | 14,170,676 | 48,764 | 39,329 |
| | 48,763,776 | 3,793,369 | 211,913 |
| | 9,527,617 | 337,210 | (537,652) |
| | 646,922 | 30,739 | 38,643 |
| | 865,275 | - | 9,545 |
| | 1,963,552 | 51,477 | 70,158 |
| | 15,296 | 423 | 2,158 |
| | 7,700,433 | - | 10,333 |
| | 261,950 | - | 58,675 |
| | 13,983,745 | 108,837 | 789,486 |
| | 3,039,549 | - | (70,491) |
| | 6,202,000 | 130,953 | - |
| | <u>1,578,267</u> | <u>114,655</u> | <u>-</u> |
| | <u>112,696,559</u> | <u>5,475,779</u> | <u>1,020,487</u> |
| | <u>12,233,058</u> | <u>(5,475,779)</u> | <u>3,598,331</u> |
| | 815,507 | - | 300 |
| | <u>(12,270,316)</u> | <u>-</u> | <u>-</u> |
| | <u>(11,454,809)</u> | <u>-</u> | <u>300</u> |
| | 778,249 | (5,475,779) | 3,598,631 |
| | <u>16,446,438</u> | <u>-</u> | <u>-</u> |
| \$ | <u>17,224,687</u> | <u>(5,475,779)</u> | <u>3,598,631</u> |

Retirement System Schedules of Funding Progress and Employer Contributions

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

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

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

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 1/1/2012 | \$ 111,307 | \$ 229,785 | \$ 118,478 | 48% | \$ 28,611 | 414.1% |
| 1/1/2011 | 121,403 | 222,496 | 101,093 | 55% | 28,637 | 353.0% |
| 1/1/2010 | 115,704 | 211,647 | 95,943 | 55% | 28,904 | 331.9% |
| 1/1/2008 | 144,811 | 192,195 | 47,384 | 75% | 27,755 | 170.7% |
| 1/1/2007 | 136,510 | 186,069 | 49,559 | 73% | 27,140 | 182.6% |
| 1/1/2006 | 123,490 | 178,655 | 55,165 | 69% | 26,338 | 209.5% |

The Town's share of the UAAL, as of June 30, 2013, is approximately 95.9%.

See notes to required supplementary information.

ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Fiscal Year Ended June 30 | System Wide | | | Town of Arlington | |
|---------------------------------|-------------------------------------|--------------------------------|---------------------------|--------------------------------|--|
| | Annual Required Contributions | (A) Actual Contributions | Percentage Contributed | (B) Actual Contributions | (B/A) Town's Percentage of System Wide Actual Contributions |
| 2013 | \$ 8,864,844 | \$ 8,864,844 | 100% | \$ 8,504,185 | 95.9% |
| 2012 | 8,441,969 | 8,441,969 | 100% | 8,067,526 | 95.6% |
| 2011 | 7,961,119 | 7,961,119 | 100% | 7,598,503 | 95.4% |
| 2010 | 7,510,490 | 7,510,490 | 100% | 7,181,006 | 95.6% |
| 2009 | 7,220,233 | 7,220,233 | 100% | 7,035,632 | 97.4% |
| 2008 | 7,177,556 | 7,177,556 | 100% | 7,022,886 | 97.8% |
| 2007 | 7,048,540 | 7,048,540 | 100% | 6,773,552 | 96.1% |

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 1/1/2012 | \$ 4,263,204 | \$ 174,062,552 | \$ 169,799,348 | 2% | \$ 56,390,000 | 301.1% |
| 1/1/2011 | 3,818,419 | 166,284,371 | 162,465,952 | 2% | 56,420,000 | 288.0% |
| 1/1/2009 | 2,594,771 | 167,296,616 | 164,701,845 | 2% | 54,207,000 | 303.8% |
| 1/1/2008 | 2,908,621 | 142,348,809 | 139,440,188 | 2% | 58,552,680 | 238.1% |

Schedule of Employer Contributions

| Year Ended | Annual Required Contribution | Actual Contributions Made | Percentage Contributed |
|---------------|------------------------------------|---------------------------------|---------------------------|
| 6/30/2013 | \$ 17,304,029 | \$ 6,779,020 | 39% |
| 6/30/2012 | 14,630,220 | 7,938,699 | 54% |
| 6/30/2011 | 14,910,833 | 8,393,826 | 56% |
| 6/30/2010 | 14,076,124 | 7,735,362 | 55% |
| 6/30/2009 | 12,728,760 | 8,761,821 | 69% |

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

| | |
|------------------------------------|---|
| Valuation date..... | January 1, 2012 |
| Actuarial cost method..... | Costs are based on the projected unit credit cost method |
| Amortization method..... | Amortization is based on assumed payroll increase of 3.25% |
| Remaining amortization period..... | 26 years as of July 1, 2012, closed |
| Asset valuation method..... | Market value of assets adjusted by receivables and payables |

Actuarial Assumptions:

| | |
|-----------------------------------|-------------|
| Investment rate of return..... | 4.20% |
| Medical/drug cost trend rate..... | 9.00%-5.00% |

Plan Membership:

| | |
|--|---------------------|
| Current retirees, beneficiaries, and dependents... | 1,128 |
| Current active members..... | <u>1,049</u> |
| Total..... | <u><u>2,177</u></u> |

See notes to required supplementary information.

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

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

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

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

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The fiscal year 2013 original budget includes approximately \$123.1 million in current year authorized appropriations and other amounts to be raised and \$6.5 million in encumbrances and appropriations were carried over from previous fiscal years. During fiscal year 2013, the Town's overall budget was increased by approximately \$970,000.

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

B. Budgetary – GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2013, is presented as follows:

| | | |
|--|----|-------------------------|
| Net change in fund balance, budgetary basis..... | \$ | 778,249 |
| <u>Perspective differences:</u> | | |
| Activity of the stabilization fund recorded in the general fund for GAAP..... | | 3,601,330 |
| Activity of health insurance and municipal building insurance trust recorded in the general fund for GAAP..... | | (259,879) |
| <u>Basis of accounting differences:</u> | | |
| Recognition of revenue based on available criteria..... | | (828,097) |
| Recognition of expenditures on modified accrual basis..... | | (946,674) |
| Recognition of revenue for on-behalf payment..... | | 12,533,490 |
| Recognition of expenditure for on-behalf payment..... | | <u>(12,533,490)</u> |
| Net change in fund balance, GAAP basis..... | \$ | <u><u>2,344,929</u></u> |

C. Appropriation Deficits

General fund expenditures exceeded budgeted appropriations for public works for snow and ice and state and county charges. These deficits are allowable and will be funded in fiscal year 2014 through real estate taxes or with other available funds.

NOTE B – PENSION PLAN

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

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

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

| | |
|------------------------------------|--|
| Valuation Date..... | January 1, 2012 |
| Actuarial Cost Method..... | Entry Age Normal |
| Amortization Method..... | Approximate level percent of payroll, closed |
| Remaining Amortization Period..... | 19 years for the fresh start retirement benefits schedule, which accounts for over 99% of the unfunded liability; 8 years for the 2003 early retirement incentives (ERI's); and 9 years for the 2004 ERI's. |
| Asset Valuation Method..... | Market value adjusted by accounts payable and receivables adjusted to phase in over 4 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value. Market value of assets is \$109,220,909. |

Actuarial Assumptions:

| | |
|---------------------------------|---|
| Investment Rate of Return..... | 7.50% per year net of investment expenses |
| Projected Salary Increases..... | 4.50% per year |

NOTE C – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

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

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

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