

TOWN OF ARLINGTON, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2014

TOWN OF ARLINGTON, MASSACHUSETTS

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FOR THE YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	Page
Independent Auditor's Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements	13
Statement of Net Position	15
Statement of Activities	16
Governmental Funds – Balance Sheet.....	18
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	19
Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balances.....	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Proprietary Funds – Statement of Net Position	22
Proprietary Funds – Statement of Revenues, Expenses and Changes in Fund Net Position	24
Proprietary Funds – Statement of Cash Flows.....	26
Fiduciary Funds – Statement of Fiduciary Net Position.....	28
Fiduciary Funds – Statement of Changes in Fiduciary Net Position	29
Notes to Basic Financial Statements	30
Required Supplementary Information.....	62
General Fund Budgetary Comparison Schedule.....	63
Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund – Budget and Actual	64
Retirement System Schedules.....	66
Retirement System Schedule of Funding Progress	67
Retirement System Schedule of Employer Contributions.....	68
Other Postemployment Benefit Plan Schedules.....	69
Other Postemployment Benefit Plan Schedule of Funding Progress and Employer Contributions.....	70
Other Postemployment Benefit Plan Actuarial Methods and Assumptions	71
Notes to Required Supplementary Information.....	72



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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, 2014 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2013), 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, 2014 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2013), 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 October 30, 2014, 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.



October 30, 2014

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 year ended June 30, 2014. 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 deferred outflows and liabilities and deferred inflows, 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 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 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, Ed Burns Arena 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 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, Ed Burns Arena 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 \$121.2 million at the close of 2014.

The largest portion of the Town's net position, \$104.5 million (86%) 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, \$16.7 million (14%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$105,000, may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

	Balance at June 30, 2014	Balance at June 30, 2013	Increase (Decrease)
Assets:			
Current assets.....	\$ 80,638,836	\$ 74,041,035	\$ 6,597,801
Noncurrent assets (excluding capital).....	8,655,461	10,963,096	(2,307,635)
Capital assets.....	142,008,196	139,096,036	2,912,160
Total assets.....	231,302,493	224,100,167	7,202,326
Deferred Outflows of Resources:			
Deferred loss on refunding.....	99,266	151,087	(51,821)
Liabilities:			
Current liabilities (excluding debt).....	10,276,587	12,251,266	(1,974,679)
Noncurrent liabilities (excluding debt).....	46,669,898	35,368,652	11,301,246
Current debt.....	7,913,295	9,895,843	(1,982,548)
Noncurrent debt.....	43,531,862	45,442,415	(1,910,553)
Total liabilities.....	108,391,642	102,958,176	5,433,466
Deferred Inflows of Resources:			
Taxes paid in advance.....	1,782,621	2,093,019	(310,398)
Net Position:			
Net investment in capital assets.....	104,460,350	97,950,516	6,509,834
Restricted.....	16,661,963	14,380,013	2,281,950
Unrestricted.....	105,183	6,869,530	(6,764,347)
Total net position.....	\$ 121,227,496	\$ 119,200,059	\$ 2,027,437

At the end of the current 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 year. Within the business-type activities, the Town reported an \$81,000 deficit balance for the youth services enterprise fund which is the result of recording a \$117,000 other postemployment benefits liability. The Ed Burns Arena and recreation enterprise funds reported deficit unrestricted net positions of \$63,000 and \$131,000, respectively. These deficits can also be attributed to the liability recorded for other postemployment benefits.

The governmental activities net position increased by \$2 million during the current year. Key increases in net position included the recognition of MSBA capital grants for school improvements of approximately \$1 million, and approximately \$1.6 million in state highway grants. Also, the Town raised \$5.9 million to be transferred to the fiscal stability and long-term stabilization funds. Offsetting these increases was an increase of \$11.2 million in the Town's other postemployment benefit obligation, reported in noncurrent liabilities, and an \$848,000 payment to the other postemployment benefits trust fund which is reported as a fiduciary fund and, accordingly, is not included in the government-wide financial statements.

The \$2.3 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 net \$2.9 million increase in capital assets is mainly from the final portion of the project to renovate the Thompson school and approximately \$1.7 million in street improvements.

Governmental Activities

	2014	2013	Increase (Decrease)
Program revenues:			
Charges for services.....	\$ 11,695,114	\$ 10,668,650	\$ 1,026,464
Operating grants and contributions.....	34,748,457	33,458,295	1,290,162
Capital grants and contributions.....	2,633,477	6,800,967	(4,167,490)
General revenues:			
Real estate and personal property taxes.....	100,765,625	97,180,236	3,585,389
Tax liens.....	220,270	510,933	(290,663)
Motor vehicle excise taxes.....	4,560,606	4,066,173	494,433
Hotel/motel tax.....	300,875	283,497	17,378
Meals tax.....	413,163	326,726	86,437
Penalties and interest on taxes.....	294,295	352,869	(58,574)
Nonrestricted grants and contributions.....	7,502,207	7,046,868	455,339
Unrestricted investment income.....	2,122,915	1,291,139	831,776
Gain on sale of capital assets.....	-	2,873,618	(2,873,618)
Miscellaneous revenues.....	77,981	14,419	63,562
Total revenues.....	165,334,985	164,874,390	460,595
Expenses:			
General government.....	11,362,970	10,813,564	549,406
Public safety.....	25,960,607	25,861,607	99,000
Education.....	95,698,115	90,812,950	4,885,165
Public works.....	13,073,357	12,993,064	80,293
Community and economic development.....	3,658,595	5,683,462	(2,024,867)
Human services.....	1,880,010	2,023,675	(143,665)
Library.....	3,605,979	3,375,967	230,012
Culture and recreation.....	926,550	795,686	130,864
Interest.....	1,231,900	1,802,643	(570,743)
Total expenses.....	157,398,083	154,162,618	3,235,465
Transfers.....	(5,909,465)	(5,859,464)	(50,001)
Change in net position.....	2,027,437	4,852,308	(2,824,871)
Net position, beginning of year.....	119,200,059	114,347,751	4,852,308
Net position, end of year.....	\$ 121,227,496	\$ 119,200,059	\$ 2,027,437

The decrease in capital grants is primarily related to the MSBA reimbursements for a percentage of the construction costs on the Thompson school project which were significantly higher in 2013. Also, the 2013 gain on sale of capital assets represents the proceeds from the sale of the fully depreciated Crosby school building.

Most categories of expenses increase as a result of standard budgetary increases. The decrease in Community and economic development is the result of a decrease in federal and state funding for the Town's Weatherization

program. Human service decreased due to decreases in several of the youth services nonmajor special revenue funds.

Business-Type Activities

	Balance at June 30, 2014	Balance at June 30, 2013	Increase (Decrease)
Assets:			
Current assets.....	\$ 12,776,652	\$ 10,947,984	\$ 1,828,668
Capital assets.....	22,865,270	22,029,278	835,992
Total assets.....	35,641,922	32,977,262	2,664,660
Liabilities:			
Current liabilities (excluding debt).....	145,649	305,308	(159,659)
Noncurrent liabilities (excluding debt).....	1,300,695	996,272	304,423
Current debt.....	1,361,540	1,301,578	59,962
Noncurrent debt.....	7,069,232	6,580,772	488,460
Total liabilities.....	9,877,116	9,183,930	693,186
Net Position:			
Net investment in capital assets.....	16,204,401	14,827,000	1,377,401
Unrestricted.....	9,560,405	8,966,332	594,073
Total net position.....	\$ 25,764,806	\$ 23,793,332	\$ 1,971,474
	2014	2013	Increase (Decrease)
Program revenues:			
Charges for services.....	\$ 15,906,693	\$ 14,462,642	\$ 1,444,051
Operating grants and contributions.....	147,512	91,703	55,809
General revenues:			
Unrestricted investment income.....	39,822	39,218	604
Total revenues.....	16,094,027	14,593,563	1,500,464
Expenses:			
Water and Sewer.....	18,010,392	17,587,856	422,536
Youth Services.....	582,744	465,735	117,009
Council on Aging.....	120,856	121,014	(158)
Ed Burns Arena.....	646,235	601,659	44,576
Recreation.....	671,791	627,364	44,427
Total expenses.....	20,032,018	19,403,628	628,390
Transfers.....	5,909,465	5,859,464	50,001
Change in net position.....	1,971,474	1,049,399	922,075
Net position, beginning of year.....	23,793,332	22,743,933	1,049,399
Net position, end of year.....	\$ 25,764,806	\$ 23,793,332	\$ 1,971,474

There was a net increase of \$2 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 2014 by approximately \$5.6 million to offset a portion of the costs associated with the repayment of debt to the Massachusetts Water Resources Authority. Of the increase in net position, \$2.1 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 increases in small equipment purchases and a \$105,000 increase in the MWRA assessment. This assessment comprises 68% 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 \$1.3 million in 2014, which was funded through available funds.

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 year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$65.2 million, an increase of \$10.8 million from the prior year.

The general fund reported a \$7.3 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 \$16.5 million at year end and reported an increase of \$5.7 million from 2013, which was primarily the result of funds generated by the 2012 tax override. The operating general fund accounted for the remaining \$1.5 million increase which was generated by positive budgetary results.

The Town's capital borrowing major fund had reported a fund balance of \$3.6 million, an increase of \$2.9 million from the prior year. During 2014, the Town recognized \$5.6 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. The Town also transferred \$2.9 million from the sale of real estate fund into the capital borrowing fund. Current expenditures in this fund totaled \$6.6 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 \$450,000 in short-term bond anticipation notes (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 \$1.1 million in MSBA reimbursements in 2014.

There was a \$695,000 increase in the nonmajor governmental funds, which reported \$22.6 million in revenues, \$20.3 million in expenditures, and (\$1.6 million) in net other financing sources (uses).

General Fund Budgetary Highlights

Changes between the original and final budget were primarily comprised of \$500,000 in additional appropriations from the Special Education Stabilization Fund and \$26,000 from the Municipal Insurance Fund all appropriated for

Education as well as various transfers between functional line items and the release of prior year carryover budgets of approximately \$58,000. 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 \$3.4 million of available reserves "free cash" to balance the 2014 budget. However, actual results from operations were better than anticipated as the Town collected approximately \$3 million more than budgeted and departments expended \$950,000 less than budgeted.

By category, all actual revenues came in over budget. The largest revenue variance was in the departmental and other category where revenues were consistent with the prior year and estimated revenues decreased. Also, motor vehicle excise receipts increased by approximately \$500,000. Expenditures for employee benefits came in under budget by approximately \$419,000, significantly contributing to the surplus. General government expenditures and carryforwards were under budget by approximately \$571,000. This was mainly due to the Town's collective bargaining reserve which turned back \$250,000 and the unused portion of the reserve fund which was approximately \$54,000. 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 year. State assessments are withheld directly from state distributions to the Town.

Additionally, net transfers in(out) were \$387,000 greater than budgeted, mainly because the Thompson School Premium was transferred into the general fund where it will be reserved and amortized over the life of the bonds.

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, 2014, the Town has recognized a liability for other postemployment benefits totaling \$45.6 million. The increase in the liability is based on the difference between the Annual Required Contribution (ARC) of \$18.4 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 \$6.3 million and \$548,000, respectively. The assets set aside in trust for future benefits amounted to \$7.4 million at 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 2015 budget, this allowed for an annual cash expenditure of \$1.55 million and a new borrowing of \$12.57 million (including Water & Sewer). The Town's outstanding long-term debt related to the general government and water & sewer enterprise, as of June 30, 2014, was \$72 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 in 2014 from the MWRA assessment to the property taxes. During FY 2014, the Town issued an additional \$1.4 million in MWRA sewer bonds and \$750,000 in MWRA water bonds.

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

The Town is expected to complete Phase 2 of the Community Safety Building renovation in October of 2014. Completion of this project has been significantly delayed due to unforeseen conditions which have also put the project over budget. The approximate cost of Phase 2 is \$3 million. During 2015, the Town will begin and complete design and engineering for the third and final phase of the Community Safety Building renovation. Phase 3 includes a complete renovation to the interior of the building and a reconfiguration of space in order to meet the needs of today's police department. The projected budget for Phase 3 is \$6,561,611 and funding is expected to be included in the 2016 Capital Budget.

During 2014, the Town began and completed design and engineering for the renovation of the Central Fire Station. Construction began in July of 2014 and the expected cost is \$6.3 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, 2014

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 60,174,108	\$ 6,445,536	\$ 66,619,644
Investments.....	12,032,007	-	12,032,007
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	14,794	-	14,794
Real estate tax deferrals.....	70,002	-	70,002
Tax liens.....	1,046,173	-	1,046,173
Motor vehicle excise taxes.....	189,115	-	189,115
User fees.....	-	6,331,116	6,331,116
Departmental and other.....	370,647	-	370,647
Intergovernmental.....	6,191,949	-	6,191,949
Loans.....	153,257	-	153,257
Tax foreclosures.....	396,784	-	396,784
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	280,012	-	280,012
Intergovernmental.....	7,762,421	-	7,762,421
Loans.....	613,028	-	613,028
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	18,255,611	96,757	18,352,368
Depreciable.....	<u>123,752,585</u>	<u>22,768,513</u>	<u>146,521,098</u>
TOTAL ASSETS.....	<u>231,302,493</u>	<u>35,641,922</u>	<u>266,944,415</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding.....	<u>99,266</u>	<u>-</u>	<u>99,266</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	1,930,052	74,649	2,004,701
Accrued payroll.....	3,474,767	-	3,474,767
Tax refunds payable.....	343,000	-	343,000
Accrued interest.....	537,164	-	537,164
Payroll withholdings.....	398,498	-	398,498
Abandoned property.....	43,593	-	43,593
Customer deposits payable.....	85,513	-	85,513
Compensated absences.....	3,366,000	71,000	3,437,000
Workers' compensation.....	98,000	-	98,000
Notes payable.....	450,000	-	450,000
Bonds payable.....	7,463,295	1,361,540	8,824,835
NONCURRENT:			
Compensated absences.....	2,229,000	73,000	2,302,000
Workers' compensation.....	56,000	-	56,000
Other postemployment benefits.....	44,384,898	1,227,695	45,612,593
Bonds payable.....	<u>43,531,862</u>	<u>7,069,232</u>	<u>50,601,094</u>
TOTAL LIABILITIES.....	<u>108,391,642</u>	<u>9,877,116</u>	<u>118,268,758</u>
DEFERRED INFLOWS OF RESOURCES			
Taxes paid in advance.....	<u>1,782,621</u>	<u>-</u>	<u>1,782,621</u>
NET POSITION			
Net investment in capital assets.....	104,460,350	16,204,401	120,664,751
Restricted for:			
Loans.....	766,285	-	766,285
Permanent funds:			
Expendable.....	7,381,116	-	7,381,116
Nonexpendable.....	4,336,231	-	4,336,231
Gifts and grants.....	4,178,331	-	4,178,331
Unrestricted.....	<u>105,183</u>	<u>9,560,405</u>	<u>9,665,588</u>
TOTAL NET POSITION.....	<u>\$ 121,227,496</u>	<u>\$ 25,764,806</u>	<u>\$ 146,992,302</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 11,362,970	\$ 2,526,690	\$ 1,148,460	\$ -	\$ (7,687,820)
Public safety.....	25,960,607	4,234,027	295,411	-	(21,431,169)
Education.....	95,698,115	2,611,699	30,016,694	1,058,974	(62,010,748)
Public works.....	13,073,357	831,319	37,401	1,574,503	(10,630,134)
Community development.....	3,658,595	451,773	2,369,412	-	(837,410)
Human services.....	1,880,010	187,011	428,963	-	(1,264,036)
Library.....	3,605,979	56,282	178,977	-	(3,370,720)
Culture and recreation.....	926,550	796,313	46,364	-	(83,873)
Interest.....	1,231,900	-	226,775	-	(1,005,125)
Total Governmental Activities.....	157,398,083	11,695,114	34,748,457	2,633,477	(108,321,035)
<i>Business-Type Activities:</i>					
Water and Sewer.....	18,010,392	14,433,144	-	-	(3,577,248)
Youth Services.....	582,744	273,070	107,512	-	(202,162)
Council on Aging.....	120,856	37,909	40,000	-	(42,947)
Ed Burns Arena.....	646,235	596,111	-	-	(50,124)
Recreation.....	671,791	566,459	-	-	(105,332)
Total Business-Type Activities.....	20,032,018	15,906,693	147,512	-	(3,977,813)
Total Primary Government.....	\$ 177,430,101	\$ 27,601,807	\$ 34,895,969	\$ 2,633,477	\$ (112,298,848)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (108,321,035)	\$ (3,977,813)	\$ (112,298,848)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	100,765,625	-	100,765,625
Tax liens.....	220,270	-	220,270
Motor vehicle excise taxes.....	4,560,606	-	4,560,606
Hotel/motel tax.....	300,875	-	300,875
Meals tax.....	413,163	-	413,163
Penalties and interest on taxes.....	294,295	-	294,295
Grants and contributions not restricted to specific programs.....	7,502,207	-	7,502,207
Unrestricted investment income.....	2,122,915	39,822	2,162,737
Miscellaneous.....	77,981	-	77,981
<i>Transfers, net</i>	<u>(5,909,465)</u>	<u>5,909,465</u>	<u>-</u>
Total general revenues and transfers.....	<u>110,348,472</u>	<u>5,949,287</u>	<u>116,297,759</u>
Change in net position.....	2,027,437	1,971,474	3,998,911
<i>Net Position:</i>			
Beginning of year.....	<u>119,200,059</u>	<u>23,793,332</u>	<u>142,993,391</u>
End of year.....	\$ <u><u>121,227,496</u></u>	\$ <u><u>25,764,806</u></u>	\$ <u><u>146,992,302</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2014

	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 42,991,113	\$ 3,929,305	\$ 13,253,690	\$ 60,174,108
Investments.....	-	-	12,032,007	12,032,007
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	14,794	-	-	14,794
Real estate tax deferrals.....	350,014	-	-	350,014
Tax liens.....	1,046,173	-	-	1,046,173
Motor vehicle excise taxes.....	189,115	-	-	189,115
Departmental and other.....	370,647	-	-	370,647
Intergovernmental.....	10,079,298	228,820	3,646,252	13,954,370
Loans.....	-	-	766,285	766,285
Tax foreclosures.....	396,784	-	-	396,784
TOTAL ASSETS.....	\$ 55,437,938	\$ 4,158,125	\$ 29,698,234	\$ 89,294,297
LIABILITIES				
Warrants payable.....	\$ 1,145,118	\$ 111,292	\$ 673,642	\$ 1,930,052
Accrued payroll.....	3,474,767	-	-	3,474,767
Tax refunds payable.....	343,000	-	-	343,000
Liabilities due depositors.....	85,513	-	-	85,513
Payroll withholdings.....	398,498	-	-	398,498
Abandoned property.....	43,593	-	-	43,593
Notes payable.....	-	450,000	-	450,000
TOTAL LIABILITIES.....	5,490,489	561,292	673,642	6,725,423
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue.....	12,446,825	-	3,119,039	15,565,864
Taxes paid in advance.....	1,782,621	-	-	1,782,621
TOTAL DEFERRED INFLOWS OF RESOURCES.....	14,229,446	-	3,119,039	17,348,485
FUND BALANCES				
Nonspendable.....	-	-	4,336,231	4,336,231
Restricted.....	4,763,651	3,596,833	21,569,322	29,929,806
Committed.....	854,878	-	-	854,878
Assigned.....	3,806,700	-	-	3,806,700
Unassigned.....	26,292,774	-	-	26,292,774
TOTAL FUND BALANCES.....	35,718,003	3,596,833	25,905,553	65,220,389
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 55,437,938	\$ 4,158,125	\$ 29,698,234	\$ 89,294,297

See notes to basic financial statements.

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

JUNE 30, 2014

Total governmental fund balances.....		\$ 65,220,389
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		142,008,196
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		15,565,864
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(537,164)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(49,976,000)	
Unamortized premium on bonds payable.....	(1,019,157)	
Workers' compensation.....	(154,000)	
Compensated absences.....	(5,595,000)	
Other postemployment benefits.....	<u>(44,384,898)</u>	
Net effect of reporting long-term liabilities.....		(101,129,055)
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>99,266</u>
Net position of governmental activities.....		<u>\$ 121,227,496</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 100,601,880	\$ -	\$ -	\$ 100,601,880
Tax liens.....	355,573	-	-	355,573
Motor vehicle excise taxes.....	4,560,606	-	-	4,560,606
Hotel/motel tax.....	300,875	-	-	300,875
Meals tax.....	413,163	-	-	413,163
Fees and rentals.....	-	-	57,259	57,259
Licenses and permits.....	-	-	-	-
Intergovernmental.....	32,719,516	1,058,974	9,845,411	43,623,901
Departmental and other.....	4,751,928	-	10,344,350	15,096,278
Contributions.....	52,098	-	394,252	446,350
Investment income.....	124,840	40	1,999,491	2,124,371
TOTAL REVENUES.....	143,880,479	1,059,014	22,640,763	167,580,256
EXPENDITURES:				
Current:				
General government.....	4,431,538	259,452	1,121,709	5,812,699
Public safety.....	13,778,482	1,239,675	2,124,233	17,142,390
Education.....	51,356,068	3,050,940	9,497,172	63,904,180
Public works.....	9,293,247	1,019,175	2,224,778	12,537,200
Community development.....	669,896	17,956	2,969,971	3,657,823
Human services.....	919,575	525	574,467	1,494,567
Library.....	2,036,487	443,864	253,257	2,733,608
Culture and recreation.....	11,806	598,122	703,431	1,313,359
Pension benefits.....	20,752,031	-	-	20,752,031
Property and liability insurance.....	292,555	-	-	292,555
Employee benefits.....	14,749,534	-	324,750	15,074,284
State and county charges.....	3,009,401	-	-	3,009,401
Debt service:				
Principal.....	6,867,000	-	390,000	7,257,000
Interest.....	1,550,494	-	145,675	1,696,169
TOTAL EXPENDITURES.....	129,718,114	6,629,709	20,329,443	156,677,266
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	14,162,365	(5,570,695)	2,311,320	10,902,990
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds.....	-	5,551,000	-	5,551,000
Premium from issuance of bonds.....	-	-	284,084	284,084
Transfers in.....	1,604,119	2,874,475	2,788,011	7,266,605
Transfers out.....	(8,487,744)	-	(4,688,326)	(13,176,070)
TOTAL OTHER FINANCING SOURCES (USES)....	(6,883,625)	8,425,475	(1,616,231)	(74,381)
NET CHANGE IN FUND BALANCES.....	7,278,740	2,854,780	695,089	10,828,609
FUND BALANCES AT BEGINNING OF YEAR.....	28,439,263	742,053	25,210,464	54,391,780
FUND BALANCES AT END OF YEAR.....	\$ 35,718,003	\$ 3,596,833	\$ 25,905,553	\$ 65,220,389

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**

YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds.....		\$ 10,828,609
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	8,719,465	
Depreciation expense.....	<u>(5,807,305)</u>	
Net effect of reporting capital assets.....		2,912,160
<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 unavailable revenue.....</p>		
		(2,245,271)
<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.....	(5,551,000)	
Debt service principal payments.....	<u>7,257,000</u>	
Net effect of reporting long-term debt.....		1,706,000
Net change in accrued interest on long-term debt.....	21,234	
Amortization of bond premiums.....	210,772	
Amortization of deferred charge on refunding.....	<u>(51,821)</u>	
Net effect of reporting other debt related activity.....		180,185
<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.....	(170,000)	
Net change in other postemployment benefits accrual.....	(11,222,246)	
Net change in workers' compensation accrual.....	<u>38,000</u>	
Net effect of recording long-term liabilities.....		<u>(11,354,246)</u>
Change in net position of governmental activities.....		\$ <u>2,027,437</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 6,054,027	\$ 46,015	\$ 135,148
Receivables, net of allowance for uncollectibles:			
User fees.....	6,331,116	-	-
Total current assets.....	<u>12,385,143</u>	<u>46,015</u>	<u>135,148</u>
NONCURRENT:			
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	96,757	-	-
Depreciable.....	20,431,798	-	27,543
Total noncurrent assets.....	<u>20,528,555</u>	<u>-</u>	<u>27,543</u>
TOTAL ASSETS.....	<u>32,913,698</u>	<u>46,015</u>	<u>162,691</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	59,230	10,041	1,558
Compensated absences.....	59,000	-	-
Bonds payable.....	1,246,540	-	-
Total current liabilities.....	<u>1,364,770</u>	<u>10,041</u>	<u>1,558</u>
NONCURRENT:			
Compensated absences.....	63,000	-	-
Other postemployment benefits obligation.....	711,378	116,964	21,236
Bonds payable.....	6,319,232	-	-
Total noncurrent liabilities.....	<u>7,093,610</u>	<u>116,964</u>	<u>21,236</u>
TOTAL LIABILITIES.....	<u>8,458,380</u>	<u>127,005</u>	<u>22,794</u>
NET POSITION			
Net investment in capital assets.....	14,732,686	-	27,543
Unrestricted.....	9,722,632	(80,990)	112,354
TOTAL NET POSITION.....	<u>\$ 24,455,318</u>	<u>\$ (80,990)</u>	<u>\$ 139,897</u>

See notes to basic financial statements.

Ed Burns Arena Enterprise	Recreation Enterprise	Total
\$ 75,178	\$ 135,168	\$ 6,445,536
<u>-</u>	<u>-</u>	<u>6,331,116</u>
<u>75,178</u>	<u>135,168</u>	<u>12,776,652</u>
-	-	96,757
<u>1,191,908</u>	<u>1,117,264</u>	<u>22,768,513</u>
<u>1,191,908</u>	<u>1,117,264</u>	<u>22,865,270</u>
<u>1,267,086</u>	<u>1,252,432</u>	<u>35,641,922</u>
675	3,145	74,649
12,000	-	71,000
<u>115,000</u>	<u>-</u>	<u>1,361,540</u>
<u>127,675</u>	<u>3,145</u>	<u>1,507,189</u>
10,000	-	73,000
115,511	262,606	1,227,695
<u>750,000</u>	<u>-</u>	<u>7,069,232</u>
<u>875,511</u>	<u>262,606</u>	<u>8,369,927</u>
<u>1,003,186</u>	<u>265,751</u>	<u>9,877,116</u>
326,908	1,117,264	16,204,401
<u>(63,008)</u>	<u>(130,583)</u>	<u>9,560,405</u>
<u>\$ 263,900</u>	<u>\$ 986,681</u>	<u>\$ 25,764,806</u>

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

YEAR ENDED JUNE 30, 2014

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
OPERATING REVENUES:			
Charges for services	\$ 14,433,144	\$ 273,070	\$ 37,909
Intergovernmental.....	-	107,512	40,000
TOTAL OPERATING REVENUES	14,433,144	380,582	77,909
OPERATING EXPENSES:			
Salaries and wages.....	1,944,038	369,799	75,335
Cost of services and administration	1,321,225	201,657	33,488
MWRA Assessment.....	12,215,105	-	-
Depreciation.....	709,698	-	6,670
Employee benefits	1,742,345	11,288	5,363
TOTAL OPERATING EXPENSES	17,932,411	582,744	120,856
OPERATING INCOME (LOSS).....	(3,499,267)	(202,162)	(42,947)
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	39,822	-	-
Interest expense.....	(77,981)	-	-
TOTAL NONOPERATING REVENUES, (EXPENSES), NET.....	(38,159)	-	-
INCOME (LOSS) BEFORE TRANSFERS.....	(3,537,426)	(202,162)	(42,947)
TRANSFERS:			
Transfers in.....	5,615,737	185,385	47,585
CHANGE IN NET POSITION.....	2,078,311	(16,777)	4,638
NET POSITION AT BEGINNING OF YEAR.....	22,377,007	(64,213)	135,259
NET POSITION AT END OF YEAR.....	\$ 24,455,318	\$ (80,990)	\$ 139,897

See notes to basic financial statements.

	Ed Burns Arena Enterprise	Recreation Enterprise	Total
\$	596,111	\$ 566,459	\$ 15,906,693
	-	-	147,512
	<u>596,111</u>	<u>566,459</u>	<u>16,054,205</u>
	250,102	274,569	2,913,843
	214,889	221,385	1,992,644
	-	-	12,215,105
	75,195	67,700	859,263
	<u>80,168</u>	<u>108,137</u>	<u>1,947,301</u>
	<u>620,354</u>	<u>671,791</u>	<u>19,928,156</u>
	<u>(24,243)</u>	<u>(105,332)</u>	<u>(3,873,951)</u>
	-	-	39,822
	<u>(25,881)</u>	<u>-</u>	<u>(103,862)</u>
	<u>(25,881)</u>	<u>-</u>	<u>(64,040)</u>
	<u>(50,124)</u>	<u>(105,332)</u>	<u>(3,937,991)</u>
	<u>57,881</u>	<u>2,877</u>	<u>5,909,465</u>
	7,757	(102,455)	1,971,474
	<u>256,143</u>	<u>1,089,136</u>	<u>23,793,332</u>
\$	<u><u>263,900</u></u>	<u><u>986,681</u></u>	<u><u>25,764,806</u></u>

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

	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.....	\$ 13,963,815	\$ 273,070	\$ 37,909
Receipts from other governments.....	-	107,512	40,000
Payments to vendors.....	(15,228,429)	(199,128)	(31,930)
Payments to employees.....	(1,943,549)	(375,561)	(76,734)
NET CASH FROM OPERATING ACTIVITIES.....	(3,208,163)	(194,107)	(30,755)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in.....	5,615,737	185,385	47,585
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the issuance of bonds and notes.....	1,850,000	-	-
Acquisition and construction of capital assets.....	(1,560,959)	-	-
Principal payments on bonds and notes.....	(1,186,578)	-	-
Interest expense.....	(77,981)	-	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(975,518)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income.....	39,822	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,471,878	(8,722)	16,830
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	4,582,149	54,737	118,318
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 6,054,027	\$ 46,015	\$ 135,148
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH			
FROM OPERATING ACTIVITIES:			
Operating income (loss).....	\$ (3,499,267)	\$ (202,162)	\$ (42,947)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	709,698	-	6,670
Changes in assets and liabilities:			
User fees.....	(469,329)	-	-
Warrants payable.....	(142,307)	2,529	1,558
Accrued payroll.....	(15,511)	(5,762)	(1,399)
Accrued compensated absences.....	16,000	-	-
Other postemployment benefits.....	192,553	11,288	5,363
Total adjustments.....	291,104	8,055	12,192
NET CASH FROM OPERATING ACTIVITIES.....	\$ (3,208,163)	\$ (194,107)	\$ (30,755)

See notes to basic financial statements.

	Ed Burns Arena Enterprise	Recreation Enterprise	Total
\$	596,111	\$ 566,459	\$ 15,437,364
	-	-	147,512
	(265,214)	(269,326)	(15,994,027)
	<u>(252,608)</u>	<u>(281,650)</u>	<u>(2,930,102)</u>
	<u>78,289</u>	<u>15,483</u>	<u>(3,339,253)</u>
	<u>57,881</u>	<u>2,877</u>	<u>5,909,465</u>
	-	-	1,850,000
	(119,937)	(14,359)	(1,695,255)
	(115,000)	-	(1,301,578)
	<u>(25,881)</u>	<u>-</u>	<u>(103,862)</u>
	<u>(260,818)</u>	<u>(14,359)</u>	<u>(1,250,695)</u>
	<u>-</u>	<u>-</u>	<u>39,822</u>
	(124,648)	4,001	1,359,339
	<u>199,826</u>	<u>131,167</u>	<u>5,086,197</u>
\$	<u><u>75,178</u></u>	<u><u>135,168</u></u>	<u><u>6,445,536</u></u>
\$	<u>(24,243)</u>	<u>(105,332)</u>	<u>(3,873,951)</u>
	75,195	67,700	859,263
	-	-	(469,329)
	675	3,145	(134,400)
	(3,506)	(7,081)	(33,259)
	1,000	-	17,000
	<u>29,168</u>	<u>57,051</u>	<u>295,423</u>
	<u>102,532</u>	<u>120,815</u>	<u>534,698</u>
\$	<u><u>78,289</u></u>	<u><u>15,483</u></u>	<u><u>(3,339,253)</u></u>

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents.....	\$ 3,728,052	\$ -	\$ 212,956	\$ 20,745
Investments:				
U.S. Treasury Bonds.....	-	-	909,871	-
Corporate Bonds.....	-	-	1,005,260	-
Bond Mutual Funds.....	-	2,677,453	-	-
Government Sponsored Enterprises.....	-	-	37,935	-
Equity Mutual Funds.....	4,777,828	4,750,323	-	-
Equity Securities.....	-	-	3,801,679	-
Real Estate Investment Trusts.....	-	-	65,970	-
PRIT.....	121,439,430	-	-	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	181	-	-	-
Interest and dividends.....	152	-	-	-
TOTAL ASSETS.....	129,945,643	7,427,776	6,033,671	20,745
LIABILITIES				
Warrants payable.....	308,000	-	20,555	587
Liabilities due depositors.....	-	-	-	20,158
TOTAL LIABILITIES.....	308,000	-	20,555	20,745
NET POSITION				
Held in trust for pension and OPEB benefits and other purposes.....	\$ 129,637,643	\$ 7,427,776	\$ 6,013,116	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2014

	Pension Trust Fund (as of December 31, 2013)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 9,396,735	\$ 847,877	\$ -
Employee.....	3,105,888	-	-
Private donations.....	-	-	275,594
Total contributions.....	12,502,623	847,877	275,594
Net investment income (loss):			
Net change in fair value of investments.....	17,085,264	1,010,256	861,022
Investment income.....	9,873	-	135,106
Total investment income (loss).....	17,095,137	1,010,256	996,128
Less: investment expense.....	(704,046)	-	-
Net investment income (loss).....	16,391,091	1,010,256	996,128
Intergovernmental.....	412,618	-	-
Transfers from other systems.....	702,825	-	-
TOTAL ADDITIONS.....	30,009,157	1,858,133	1,271,722
DEDUCTIONS:			
Administration.....	269,862	-	-
Transfers to other systems.....	552,669	-	-
Retirement benefits and refunds.....	16,860,139	-	-
Human services.....	-	-	5,919
Educational scholarships.....	-	-	586,163
TOTAL DEDUCTIONS.....	17,682,670	-	592,082
CHANGE IN NET POSITION.....	12,326,487	1,858,133	679,640
NET POSITION AT BEGINNING OF YEAR.....	117,311,156	5,569,643	5,333,476
NET POSITION AT END OF YEAR.....	\$ 129,637,643	\$ 7,427,776	\$ 6,013,116

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 2014, the Town’s annual assessment totaled \$3,336,935.

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 activities) 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, and deferred outflows of resources, liabilities and deferred inflows of resources, 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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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 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 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 *Ed Burns Arena enterprise fund* is used to account for the 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 year of the levy.

Tax liens are processed during the fourth quarter of every year on delinquent properties and are recorded as receivables in the 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 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 year. Water and sewer user fees are recorded as receivables in the 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 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>
Buildings.....	50
Improvements.....	20-50
Vehicles and equipment.....	5-10
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 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 has reported deferred losses on refunding 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 has reported taxes paid in advance in this category.

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will not be recognized as an inflow of resources (revenue) until it becomes available. The Town has reported unavailable revenue and taxes paid in advance as deferred inflows of resources in the governmental funds balance sheet.

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. 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.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net 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.

M. Investment Income

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

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Use of Estimates*Government-Wide and Fund Financial Statements*

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

P. Total Column*Government-Wide Financial Statements*

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

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

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

Funds held in the Other Postemployment Benefit (OPEB) Trust Fund are held under the supervision and investment management of the Town's Contributory Retirement Board. The Town Treasurer is the custodian of the OPEB Trust Fund. Investments of approximately \$7.4 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 year-end, the carrying amount of deposits totaled \$33,694,836 and the bank balance totaled \$35,179,118. Of the bank balance, \$6,167,131 was covered by Federal Depository Insurance, \$9,328,084 was covered by Depositors Insurance Fund, and \$19,683,903 was fully collateralized. Accordingly, none of the Town's deposits are exposed to custodial credit risk.

At December 31, 2013, carrying amount of deposits for the Pension System totaled \$430,723 and the bank balance totaled \$749,891. 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, 2014, the Town of Arlington had the following investments:

Investment Type	Fair Value	Maturity			
		Under 1 Year	1-5 Years	6-10 Years	Over 10 Years
<u>Debt Securities:</u>					
U.S. Treasury Bonds.....	\$ 2,790,668	\$ 406,915	\$ 976,889	\$ 1,000,528	\$ 406,336
Corporate Bonds.....	3,083,234	-	1,343,626	951,847	787,761
Government Sponsored Enterprises.....	116,351	-	-	116,351	-
Total Debt Securities.....	5,990,253	\$ 406,915	\$ 2,320,515	\$ 2,068,726	\$ 1,194,097
<u>Other Investments:</u>					
Mutual Funds.....	7,427,776				
Equity Securities.....	11,660,133				
Real Estate Investment Trusts.....	202,336				
Money Market Mutual Funds.....	265,914				
MMDT.....	32,892,595				
Total Investments.....	\$ 58,439,007				

As of December 31, 2013, the Pension System had the following investments:

PRIT.....	\$ 121,439,430
Money Market Mutual Funds.....	3,297,329
Equity Mutual Funds.....	4,777,828
Total Investments.....	\$ 129,514,587

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 .25 to 10.78 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, 2014, the Town’s investments in MMDT which totaled \$32,892,595 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 \$11,660,133 and \$202,336 in equity securities and real estate investment trusts, respectively, 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, 2013, the System’s investments in PRIT and open-end mutual funds totaling \$129,514,587 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, 2014 the Town’s investments were rated as follows:

Quality Ratings	Corporate Bonds	Government Sponsored Enterprises	U.S. Treasury Bonds
AAA.....	\$ 213,211	\$ -	\$ 2,790,668
AA+.....	180,927	116,351	-
AA.....	249,566	-	-
AA-.....	293,823	-	-
A+.....	331,838	-	-
A.....	323,977	-	-
A-.....	511,374	-	-
BBB+.....	409,097	-	-
BBB.....	337,409	-	-
BBB-.....	232,012	-	-
Fair Value.....	<u>\$ 3,083,234</u>	<u>\$ 116,351</u>	<u>\$ 2,790,668</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	Range		
	Current Policy	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, 2014, 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.....	\$ 14,794	\$ -	\$ 14,794
Real estate tax deferrals.....	350,014	-	350,014
Tax liens.....	1,046,173	-	1,046,173
Motor vehicle excise taxes.....	651,822	(462,707)	189,115
Departmental and other.....	370,898	(251)	370,647
Intergovernmental.....	13,954,370	-	13,954,370
Loans.....	766,285	-	766,285
Total.....	<u>\$ 17,154,356</u>	<u>\$ (462,958)</u>	<u>\$ 16,691,398</u>

At June 30, 2014, receivables for the proprietary funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer fees.....	\$ 6,331,116	\$ -	\$ 6,331,116

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of unavailable 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.....	\$ 14,794	\$ -	\$ 14,794
Real estate tax deferrals.....	350,014	-	350,014
Tax liens.....	1,046,173	-	1,046,173
Motor vehicle excise taxes.....	189,115	-	189,115
Departmental and other.....	370,647	-	370,647
State school construction funds.....	10,079,298	-	10,079,298
Intergovernmental.....	-	2,352,754	2,352,754
Loans.....	-	766,285	766,285
Tax foreclosures.....	396,784	-	396,784
Total.....	<u>\$ 12,446,825</u>	<u>\$ 3,119,039</u>	<u>\$ 15,565,864</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, 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.....	23,284,953	1,814,321	(17,369,256)	7,730,018
Total capital assets not being depreciated.....	33,810,546	1,814,321	(17,369,256)	18,255,611
<u>Capital assets being depreciated:</u>				
Buildings.....	111,352,604	18,900,000	-	130,252,604
Improvements.....	16,020,392	1,688,341	-	17,708,733
Vehicles and equipment.....	11,283,713	611,809	(712,374)	11,183,148
Infrastructure.....	66,521,296	3,074,250	-	69,595,546
Total capital assets being depreciated.....	205,178,005	24,274,400	(712,374)	228,740,031
<u>Less accumulated depreciation for:</u>				
Buildings.....	(46,153,967)	(2,481,494)	-	(48,635,461)
Improvements.....	(3,830,455)	(809,548)	-	(4,640,003)
Vehicles and equipment.....	(7,231,179)	(917,459)	712,374	(7,436,264)
Infrastructure.....	(42,676,914)	(1,598,804)	-	(44,275,718)
Total accumulated depreciation.....	(99,892,515)	(5,807,305)	712,374	(104,987,446)
Total capital assets being depreciated, net.....	105,285,490	18,467,095	-	123,752,585
Total governmental activities capital assets, net.....	\$ 139,096,036	\$ 20,281,416	\$ (17,369,256)	\$ 142,008,196

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,954	\$ -	\$ -	\$ 2,954
Construction in progress.....	551,069	-	(457,266)	93,803
Total capital assets not being depreciated.....	554,023	-	(457,266)	96,757
<u>Capital assets being depreciated:</u>				
Buildings.....	730,566	-	-	730,566
Improvements.....	2,088,178	471,625	-	2,559,803
Vehicles and equipment.....	3,083,141	408,931	(14,452)	3,477,620
Infrastructure.....	22,111,400	1,271,965	-	23,383,365
Total capital assets being depreciated.....	28,013,285	2,152,521	(14,452)	30,151,354
<u>Less accumulated depreciation for:</u>				
Buildings.....	(216,508)	(15,119)	-	(231,627)
Improvements.....	(315,167)	(130,648)	-	(445,815)
Vehicles and equipment.....	(1,215,763)	(302,014)	14,452	(1,503,325)
Infrastructure.....	(4,790,592)	(411,482)	-	(5,202,074)
Total accumulated depreciation.....	(6,538,030)	(859,263)	14,452	(7,382,841)
Total capital assets being depreciated, net.....	21,475,255	1,293,258	-	22,768,513
Total business-type activities capital assets, net.....	\$ 22,029,278	\$ 1,293,258	\$ (457,266)	\$ 22,865,270

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

Governmental Activities:

General government.....	\$ 308,231
Public safety.....	663,156
Education.....	2,430,446
Public works.....	1,979,911
Property and natural resources.....	121,291
Community development.....	54,486
Human services.....	16,205
Library.....	183,630
Culture and recreation.....	49,949

Total depreciation expense - governmental activities..... \$ 5,807,305

Business-Type Activities:

Water and sewer.....	\$ 709,698
Council on aging.....	6,670
Ed Burns Arena.....	75,195
Recreation.....	67,700

Total depreciation expense - business-type activities..... \$ 859,263

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended June 30, 2014, are summarized as follows:

Transfers In:	Transfers Out:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 1,604,119	\$ 1,604,119 (1)
Capital Borrowing Fund.....	-	2,874,475	2,874,475 (2)
Nonmajor Governmental Funds.....	2,611,986	176,025	2,788,011 (3)
Water and Sewer Enterprise Fund.....	5,615,737	-	5,615,737 (4)
Youth Services Enterprise Fund.....	169,263	16,122	185,385 (4)
Council On Aging Enterprise Fund.....	30,000	17,585	47,585 (4)
Ed Burns Arena Enterprise Fund.....	57,881	-	57,881 (4)
Recreation Enterprise Fund.....	2,877	-	2,877 (4)
Totals.....	\$ <u>8,487,744</u>	\$ <u>4,688,326</u>	\$ <u>13,176,070</u>

- (1) Represents budgeted transfers to the general fund from the conservation commission, central school, ambulance revolving, antenna revolving, and cemetery perpetual care nonmajor governmental funds to fund the operating budget. Also represents a transfer from the special education reserve to the school operating budget totaling \$500,000 and a transfer from the Thompson School bond premium fund to the general fund to be reserved within the general fund totaling \$433,075, and a transfer from the field user fee nonmajor fund to reimburse the general fund.
- (2) Consists primarily of a transfer from the sale of real estate fund to the Town’s capital borrowing fund. The funds originated from the sale of a school property and will be used for the Thompson School project.
- (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 and a transfer to the Symmes property fund. Also represents transfers within nonmajor governmental funds.
- (4) Represents budgeted transfers from the general fund to the water and sewer, youth services, Ed Burns Arena, recreation and council on aging enterprise funds. Represents transfers from nonmajor governmental grant and trust funds to the council on aging and youth services enterprise funds.

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, 2014, the Town had the following short-term debt outstanding:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2013	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2014
BAN	Bond Anticipation Note.....	1.00	11/15/13	\$ 2,426,329	\$ -	\$ (2,426,329)	\$ -
BAN	Bond Anticipation Note.....	0.45	10/30/14	-	450,000	-	450,000
Total.....				\$ 2,426,329	\$ 450,000	\$ (2,426,329)	\$ 450,000

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, 2014, 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, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Municipal Purpose - 2003.....	2024	\$ 7,392,000	4.50	\$ 300,000	\$ -	\$ (300,000)	\$ -
Municipal Purpose - 2004.....	2015	3,980,000	2.50-3.75	660,000	-	(330,000)	330,000
GOB Refunding - 2005.....	2017	3,100,000	3.00-5.00	1,610,000	-	(385,000)	1,225,000
GOB Refunding - 2005.....	2017	2,630,000	3.00-5.00	1,080,000	-	(275,000)	805,000
Municipal Purpose - 2005.....	2021	5,171,000	2.80-4.13	1,845,000	-	(285,000)	1,560,000
Municipal Purpose - 2006.....	2026	3,320,952	4.00-5.50	3,550,000	-	(300,000)	3,250,000
Municipal Purpose - 2007.....	2018	3,102,000	3.75-4.75	1,150,000	-	(250,000)	900,000
GOB Refunding - 2007.....	2018	11,690,000	3.75-5.00	6,065,000	-	(1,305,000)	4,760,000
Municipal Purpose - 2007.....	2018	100,000	3.75-4.5	50,000	-	(10,000)	40,000
Municipal Purpose - 2008.....	2019	3,875,000	3.00-3.62	1,530,000	-	(580,000)	950,000
Symmes Property.....	2022	5,262,000	2.00-4.00	4,120,000	-	(405,000)	3,715,000
Municipal Purpose - 2009.....	2020	2,482,000	2.00-3.00	1,635,000	-	(280,000)	1,355,000
Municipal Purpose - 2010.....	2031	7,258,000	2.00-4.00	6,200,000	-	(525,000)	5,675,000
Symmes Property - taxable.....	2019	840,000	2.00-2.50	705,000	-	(135,000)	570,000
Symmes Property.....	2022	470,000	2.00-3.00	470,000	-	-	470,000
Municipal Purpose - 2012.....	2022	1,329,000	2.00-3.00	1,050,000	-	(225,000)	825,000
GOB Refunding - 2012.....	2021	6,311,000	2.00-3.00	5,550,000	-	(735,000)	4,815,000
Municipal Purpose - 2013.....	2033	12,132,000	2.00-5.00	11,907,000	-	(927,000)	10,980,000
GOB Refunding - 2013.....	2024	2,205,000	2.00-3.00	2,205,000	-	(5,000)	2,200,000
Municipal Purpose - 2014.....	2034	5,551,000	3.00-3.75	-	5,551,000	-	5,551,000
Total bonds payable.....				51,682,000	5,551,000	(7,257,000)	49,976,000
Add: unamortized premium.....				1,229,929	-	(210,772)	1,019,157
Total bonds payable, net.....				\$ 52,911,929	\$ 5,551,000	\$ (7,467,772)	\$ 50,995,157

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015.....	\$ 7,276,000	\$ 1,670,431	\$ 8,946,431
2016.....	6,785,000	1,346,638	8,131,638
2017.....	6,485,000	1,105,957	7,590,957
2018.....	5,335,000	886,169	6,221,169
2019.....	3,870,000	716,294	4,586,294
2020.....	3,465,000	587,528	4,052,528
2021.....	3,210,000	472,187	3,682,187
2022.....	2,320,000	375,106	2,695,106
2023.....	1,590,000	305,762	1,895,762
2024.....	1,440,000	257,418	1,697,418
2025.....	1,255,000	219,096	1,474,096
2026.....	1,230,000	183,068	1,413,068
2027.....	915,000	152,737	1,067,737
2028.....	910,000	127,874	1,037,874
2029.....	875,000	103,040	978,040
2030.....	850,000	78,362	928,362
2031.....	845,000	53,156	898,156
2032.....	585,000	31,953	616,953
2033.....	585,000	14,556	599,556
2034.....	150,000	2,812	152,812
Totals.....	<u>\$ 49,976,000</u>	<u>\$ 8,690,144</u>	<u>\$ 58,666,144</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 \$592,000. 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, 2014, 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, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2014</u>
Municipal Purpose - 2006.....	2017	\$ 2,000,000	4.00-5.50	\$ 800,000	\$ -	\$ (200,000)	\$ 600,000
Water and Sewer Bonds - MWRA.....	2017	7,732,390	-	4,427,350	550,000	(826,578)	4,150,772
Municipal Purpose - 2012.....	2022	1,300,000	2.00-3.00	1,170,000	-	(130,000)	1,040,000
Municipal Purpose - 2013.....	2022	280,000	2.00-5.00	505,000	-	(30,000)	475,000
Municipal Purpose - 2014.....	2033	1,300,000	3.00-3.75	-	1,300,000	-	1,300,000
Total water and sewer enterprise fund bonds payable.....				<u>\$ 6,902,350</u>	<u>\$ 1,850,000</u>	<u>\$ (1,186,578)</u>	<u>\$ 7,565,772</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015.....	\$ 1,246,540	\$ 125,638	\$ 1,372,178
2016.....	1,150,316	90,444	1,240,760
2017.....	1,025,716	74,719	1,100,435
2018.....	805,300	63,119	868,419
2019.....	721,100	55,894	776,994
2020.....	535,600	48,794	584,394
2021.....	425,600	41,819	467,419
2022.....	425,600	34,969	460,569
2023.....	230,000	30,069	260,069
2024.....	145,000	27,369	172,369
2025.....	90,000	24,919	114,919
2026.....	90,000	22,454	112,454
2027.....	90,000	19,957	109,957
2028.....	90,000	17,429	107,429
2029.....	90,000	14,885	104,885
2030.....	85,000	12,307	97,307
2031.....	85,000	9,613	94,613
2032.....	85,000	6,826	91,826
2033.....	85,000	3,932	88,932
2034.....	65,000	1,219	66,219
Totals.....	\$ <u>7,565,772</u>	\$ <u>726,376</u>	\$ <u>8,292,148</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, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2014</u>
Municipal Purpose - 2009.....	2020	\$ 1,000,000	2.00-3.00	\$ 700,000	\$ -	\$ (100,000)	\$ 600,000
Municipal Purpose - 2013.....	2033	280,000	2.00-5.00	280,000	-	(15,000)	265,000
Total Veteran's rink enterprise fund bonds payable.....				\$ <u>980,000</u>	\$ <u>-</u>	\$ <u>(115,000)</u>	\$ <u>865,000</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 865,000</u>	<u>\$ 118,716</u>	<u>\$ 983,716</u>

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During 2014, \$2,474,773 of such assistance was received. Approximately \$10,470,000 will be received in future years. Of this amount, approximately \$391,000 represents reimbursement of long-term interest costs, and approximately \$10,079,000 represents reimbursement of approved construction costs. Accordingly, a \$10,079,000 intergovernmental receivable and corresponding unavailable revenue have been reported in the governmental fund financial statements. The net change in unavailable 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 2014, the Town has recorded capital grant revenue totaling approximately \$8.9 million from the MSBA which is equal to 50.42% of approved construction costs incurred to date. Of this amount, the Town has received \$8.7 million of reimbursements and anticipates receiving the remaining \$200,000 of reimbursements in 2014. Accordingly, the Town has recorded an intergovernmental receivable totaling \$200,000 as of June 30, 2014.

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, 2014, the Town had the following authorized and unissued debt:

Purpose	Amount
Symmes Property.....	\$ 1,293,000
School.....	9,196,157
Road Repairs.....	200,000
Sewer.....	1,781,800
Water.....	3,739,000
Fire Stations.....	450,000
Remodeling.....	120,000
Various Purposes.....	12,726,963
Building and Safety Improvements.....	145,000
Playground.....	550
Total.....	\$ 29,652,470

Changes in long-term liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Long-Term Bonds.....	\$ 51,682,000	\$ 5,551,000	\$ (7,257,000)	\$ 49,976,000	\$ 7,276,000
Add: Unamortized Premium.....	1,229,929	-	(210,772)	1,019,157	187,295
Total Long-Term Bonds.....	52,911,929	5,551,000	(7,467,772)	50,995,157	7,463,295
Other Postemployment Benefits.....	33,162,652	17,912,751	(6,690,505)	44,384,898	-
Workers' Compensation.....	192,000	377,696	(415,696)	154,000	98,000
Compensated Absences.....	5,425,000	3,446,000	(3,276,000)	5,595,000	3,366,000
Total governmental activities.....	<u>\$ 91,691,581</u>	<u>\$ 27,287,447</u>	<u>\$ (17,849,973)</u>	<u>\$ 101,129,055</u>	<u>\$ 10,927,295</u>
Business-Type Activities:					
Long-Term Bonds.....	\$ 7,882,350	\$ 1,850,000	\$ (1,301,578)	\$ 8,430,772	\$ 1,361,540
Other Postemployment Benefits.....	932,272	436,700	(141,277)	1,227,695	-
Compensated Absences.....	127,000	80,000	(63,000)	144,000	71,000
Total business-type activities.....	<u>\$ 8,941,622</u>	<u>\$ 2,366,700</u>	<u>\$ (1,505,855)</u>	<u>\$ 9,802,467</u>	<u>\$ 1,432,540</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 \$16,459,000 have been reported within the general fund as unassigned and the Town's municipal insurance funds totaling approximately \$4,764,000 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.....	\$ -	\$ -	\$ 4,336,231	\$ 4,336,231
Restricted for:				
Municipal insurance.....	4,763,651	-	-	4,763,651
Capital borrowing funds.....	-	3,596,833	-	3,596,833
Town revolving funds.....	-	-	2,073,876	2,073,876
Town gift and grant funds.....	-	-	1,616,463	1,616,463
School lunch.....	-	-	226,878	226,878
School revolving funds.....	-	-	1,364,708	1,364,708
School gift and grant funds.....	-	-	2,561,868	2,561,868
Receipts reserved for appropriation.....	-	-	585,868	585,868
Special revenue trust funds.....	-	-	719,341	719,341
Employee insurance mitigation funds.....	-	-	474,375	474,375
Other special revenue funds.....	-	-	2,714,690	2,714,690
Symmes Property.....	-	-	766,975	766,975
Capital tax levy projects.....	-	-	1,044,996	1,044,996
Other capital projects.....	-	-	23,221	23,221
Cemeteries.....	-	-	619,259	619,259
Cemetery perpetual care.....	-	-	3,818,612	3,818,612
Libraries.....	-	-	2,794,061	2,794,061
Education permanent funds.....	-	-	164,131	164,131
Committed to:				
General government.....	359,630	-	-	359,630
Public safety.....	9,800	-	-	9,800
Human Services.....	276	-	-	276
Employee benefits.....	54,329	-	-	54,329
Debt service principal.....	148,408	-	-	148,408
Debt service interest.....	282,435	-	-	282,435
Assigned to:				
General government.....	96,867	-	-	96,867
Public safety.....	77,626	-	-	77,626
Education.....	141,719	-	-	141,719
Public works.....	414,399	-	-	414,399
Community development.....	8,856	-	-	8,856
Human services.....	1,020	-	-	1,020
Library.....	8,578	-	-	8,578
Employee benefits.....	14,710	-	-	14,710
Balance the FY15 operating budget.....	3,042,925	-	-	3,042,925
Unassigned.....	26,292,774	-	-	26,292,774
TOTAL FUND BALANCES.....	\$ 35,718,003	\$ 3,596,833	\$ 25,905,553	\$ 65,220,389

NOTE 9 – STABILIZATION FUND

At June 30, 2014, the Town has approximately \$2.8 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 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 had a zero balance in the tip fee stabilization fund at June 30, 2014, which is recorded as part of the general fund in the fund-based financial statements. The activity of the fund in 2014 consists of the following:

Fund balance at June 30, 2013.....	\$	164,260
Investment income.....		29
Transfer to the general fund.....		<u>(164,289)</u>
Fund balance at June 30, 2014.....	\$	<u><u>-</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. As of June 30, 2014, the Fiscal Stability Fund has a balance of approximately \$13.7 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 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 \$474,000.

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, 2014, the amount of the liability for workers' compensation claims totaled \$154,000. 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 Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at End of Year
	<u>Year</u>		<u>Estimate</u>		<u>Payments</u>		<u>Year</u>
2013.....	\$ 226,000	\$	389,938	\$	(423,938)	\$	192,000
2014.....	192,000		377,696		(415,696)		154,000

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 \$12.6 million for the year ended June 30, 2014, 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, 2013, the System's membership consists of the following:

Active members.....	769
Inactive members.....	318
Retirees and beneficiaries currently receiving benefits.....	<u>626</u>
 Total.....	 <u>1,713</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 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 years ended June 30, 2014, 2013, and 2012 were \$9,008,899, \$8,504,185, and \$8,067,526 respectively, which equaled its required contribution for each year. At June 30, 2014, the Town did not have a net pension obligation. The 2014 required contribution was determined as part of the January 1, 2012 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, 2013, was 18 years for the fresh start base that accounts for over 99% of the unfunded liability; 7 years for the 2003 early retirement incentives (ERI's); and 8 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)
1/1/13	\$ 116,431	\$ 236,967	\$ 120,536	49.1%	\$ 30,010	401.7%
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 2014, 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 2014, the Town pre-funded future OPEB liabilities in the amount of approximately \$848,000. 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 \$7.4 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.....	\$ 18,436,385
Interest on net OPEB obligation.....	1,431,987
ARC Adjustment.....	<u>(1,518,921)</u>
Annual OPEB cost (expense).....	18,349,451
 Contributions made.....	 <u>(6,831,782)</u>
 Increase in net OPEB obligation.....	 11,517,669
 Net OPEB obligation - beginning of year.....	 <u>34,094,924</u>
 Net OPEB obligation - end of year.....	 \$ <u><u>45,612,593</u></u>

Schedule of Employer Contributions

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 18,349,451	37%	\$ 45,612,593
6/30/2013	17,279,840	39%	34,094,924
6/30/2012	14,657,786	54%	23,594,104

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 January 1, 2012, closed

NOTE 15 – COMMITMENTS – OPEN FOR TOWN

As of June 30, 2014, the Town was entering the final stages of Phase 2 of the Community Safety Building renovation. The project has been delayed as a result of unforeseen conditions and the approximate cost of Phase 2 has increased to \$3 million. During 2015, the Town will begin and complete design and engineering for the third and final phase of the Community Safety Building renovation. The construction is scheduled to begin in July 2015 and the expected cost is \$6.5 million.

Beginning on July 1, 2014 the Town began construction on the renovation of the Central Fire Station. The expected cost of the project is \$6.3 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, 2014, 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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. Financial statement changes include deferred outflows and inflows being presented in the Statement of Net Position. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in 2015.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in 2015.

- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with GASB Statement #68 in 2015.

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

YEAR ENDED JUNE 30, 2014

	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.....	\$ -	\$ 100,717,847	\$ 100,717,847	\$ 100,717,847
Tax liens.....	-	-	-	-
Motor vehicle excise taxes.....	-	3,750,000	3,750,000	3,750,000
Hotel/motel tax.....	-	250,000	250,000	250,000
Meals tax.....	-	300,000	300,000	300,000
Intergovernmental.....	-	19,507,465	19,507,465	19,507,465
Departmental and other.....	-	3,808,000	3,808,000	3,808,000
Investment income.....	-	50,000	50,000	50,000
TOTAL REVENUES.....	-	128,383,312	128,383,312	128,383,312
EXPENDITURES:				
Current:				
General government.....	859,352	5,087,271	5,946,623	5,521,850
Public safety.....	48,764	14,163,279	14,212,043	14,341,268
Education.....	3,793,369	51,012,048	54,805,417	55,272,984
Public works.....	337,210	8,717,108	9,054,318	9,436,879
Community development.....	30,739	694,821	725,560	725,560
Human services.....	-	882,549	882,549	937,854
Library.....	51,477	2,113,036	2,164,513	2,146,368
Culture and recreation.....	423	20,427	20,850	18,399
Pension benefits.....	-	8,160,032	8,160,032	8,160,032
Property and liability insurance.....	-	320,625	320,625	320,625
Employee benefits.....	108,837	14,418,741	14,527,578	14,123,340
State and county charges.....	-	3,018,714	3,018,714	2,998,089
Debt service:				
Principal.....	130,953	6,931,455	7,062,408	7,015,408
Interest.....	114,655	1,751,780	1,866,435	1,832,929
TOTAL EXPENDITURES.....	5,475,779	117,291,886	122,767,665	122,851,585
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(5,475,779)	11,091,426	5,615,647	5,531,727
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	826,249	826,249	1,352,112
Transfers out.....	-	(14,750,026)	(14,750,026)	(15,133,672)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(13,923,777)	(13,923,777)	(13,781,560)
NET CHANGE IN FUND BALANCE.....	(5,475,779)	(2,832,351)	(8,308,130)	(8,249,833)
BUDGETARY FUND BALANCE, Beginning of year.....	17,224,687	17,224,687	17,224,687	17,224,687
BUDGETARY FUND BALANCE, End of year.....	\$ 11,748,908	\$ 14,392,336	\$ 8,916,557	\$ 8,974,854

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	100,853,697	\$ -	\$ 135,850
	355,573	-	355,573
	4,560,606	-	810,606
	300,875	-	50,875
	413,163	-	113,163
	20,105,875	-	598,410
	4,751,928	-	943,928
	86,767	-	36,767
	<u>131,428,484</u>	<u>-</u>	<u>3,045,172</u>
	4,493,958	456,497	571,395
	14,134,573	87,426	119,269
	51,953,672	3,295,131	24,181
	9,357,486	414,399	(335,006)
	680,032	8,856	36,672
	932,817	1,296	3,741
	2,072,911	8,578	64,879
	11,806	-	6,593
	8,143,416	-	16,616
	292,555	-	28,070
	13,635,250	69,039	419,051
	3,009,401	-	(11,312)
	6,867,000	148,408	-
	1,550,494	282,435	-
	<u>117,135,371</u>	<u>4,772,065</u>	<u>944,149</u>
	<u>14,293,113</u>	<u>(4,772,065)</u>	<u>3,989,321</u>
	1,814,607	-	462,495
	(15,209,494)	-	(75,822)
	<u>(13,394,887)</u>	<u>-</u>	<u>386,673</u>
	898,226	(4,772,065)	4,375,994
	<u>17,224,687</u>	<u>-</u>	<u>-</u>
\$	<u>18,122,913</u>	\$ <u>(4,772,065)</u>	\$ <u>4,375,994</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)
1/1/2013	\$ 116,431	\$ 236,967	\$ 120,536	49%	\$ 30,010	401.7%
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, 2014, is approximately 95.9%.

See notes to required supplementary information.

ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

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
2014	\$ 9,396,735	\$ 9,396,735	100%	\$ 9,008,899	95.9%
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
6/30/2014	\$ 18,436,385	\$ 6,831,782	37%
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 January 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 ACCOUNTINGA. 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 year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent 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 2014 original budget includes approximately \$131.7 million in current year authorized appropriations and other amounts to be raised and \$5.5 million in encumbrances and appropriations were carried over from previous years. During 2014, the Town's overall budget was increased by approximately \$468,000.

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 year ended June 30, 2014, is presented as follows:

Net change in fund balance, budgetary basis.....	\$	898,226
<u>Perspective differences:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		5,738,055
Activity of health insurance and municipal building insurance trust recorded in the general fund for GAAP.....		(273,081)
<u>Basis of accounting differences:</u>		
Recognition of tax refunds payable.....		(343,000)
Recognition of expenditures on modified accrual basis.....		1,258,540
Recognition of revenue for on-behalf payment.....		12,613,641
Recognition of expenditure for on-behalf payment.....		<u>(12,613,641)</u>
Net change in fund balance, GAAP basis.....	\$	<u><u>7,278,740</u></u>

C. Appropriation Deficits

General fund expenditures exceeded budgeted appropriations for public works for snow and ice removal and state and county charges. The Town is allowed to overspend the budget for the removal of snow and ice and to raise the deficit in the subsequent year. State and county charges represent assessments from the commonwealth.

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, 2013
Actuarial Cost Method.....	Entry Age Normal
Amortization Method.....	Approximate level percent of payroll, closed
Remaining Amortization Period.....	18 years for the fresh start retirement benefits schedule, which accounts for over 99% of the unfunded liability; 7 years for the 2003 early retirement incentives (ERI's); and 8 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 \$117,722,156.

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.