

OFFICIAL STATEMENT DATED OCTOBER 26, 2016

Rating: See "Rating" herein.
S&P Global Ratings: AAA

New Issue

In the opinion of Locke Lord LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The Bonds will NOT be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "THE BONDS- Tax Exemption" herein.

TOWN OF ARLINGTON, MASSACHUSETTS
\$25,660,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2016 BONDS

DATED
Date of Delivery

DUE
November 1
(as shown below)

The Bonds are issuable only in fully registered form, registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form in the denomination of \$5,000, or any integral multiple thereof. (See "Book-Entry-Transfer System" herein.)

Principal of the Bonds will be payable November 1 of the years in which the Bonds mature. Interest on the Bonds will be payable May 1 and November 1, commencing November 1, 2017. Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Bonds will be subject to redemption prior to their stated maturity dates as described herein.

An opinion of Bond Counsel will be delivered with the Bonds to the effect that the Bonds are valid general obligations of the Town of Arlington, Massachusetts, and that the principal of and interest on the Bonds are payable from taxes that may be levied upon all the property within the territorial limits of the Town, without limit as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

MATURITIES, AMOUNTS, RATES, YIELDS AND CUSIPS

Due November 1	Principal Amount	Interest Rate	Yield	Cusip 041609	Due November 1	Principal Amount	Interest Rate	Yield	Cusip 041609
2017	\$ 1,395,000	4.00 %	0.73 %	ZN1	2027	\$ 960,000	4.00 %	1.90 %	ZY7
2018	1,360,000	4.00	0.88	ZP6	2028	960,000	4.00	2.10	ZZ4
2019	1,335,000	4.00	1.00	ZQ4	2029	960,000	4.00	2.20	A24
2020	1,310,000	4.00	1.08	ZR2	2030	955,000	3.00	2.55	A32
2021	1,290,000	4.00	1.18	ZS0	2031	920,000	4.00	2.40	A40
2022	1,135,000	4.00	1.25	ZT8	2032	840,000	3.00	2.70	A57
2023	1,120,000	4.00	1.39	ZU5	2033	840,000	3.00	2.80	A65
2024	1,030,000	4.00	1.54	ZV3	2034	830,000	3.00	2.90	A73
2025	1,025,000	4.00	1.68	ZW1	2037	555,000	3.00	3.032	B23
2026	1,020,000	4.00	1.79	ZX9					

\$1,650,000 Interest Rate 3.000% Term Bond Maturing November 1, 2036 Yield 3.01% Cusip #: 041609 A99
\$2,220,000 Interest Rate 3.000% Term Bond Maturing November 1, 2041 Yield 3.15% Cusip #: 041610 B64
\$1,950,000 Interest Rate 3.125% Term Bond Maturing November 1, 2045 Yield 3.20% Cusip #: 041611 C22

The Bonds are offered subject to the final approving opinion of Locke Lord LLP, Boston, Massachusetts, Bond Counsel, as aforesaid, and to certain other conditions referred to herein and in the Notice of Sale. FirstSouthwest, a Division of Hilltop Securities Inc., Boston, Massachusetts has acted as Financial Advisor to the Town of Arlington, Massachusetts, with respect to the Bonds. The Bonds in definitive form will be delivered to DTC, or its custodial agent, on or about November 9, 2016, against payment to the Town in federal funds.



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The information and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no material change in the affairs of the Town since the date of this Official Statement.

SUMMARY STATEMENT

The information set forth below is qualified in its entirety by the information and financial statements appearing elsewhere in the Official Statement.

Date of Sale: Wednesday, October 26, 2016, 11:00 A.M. (Eastern Daylight Time).

Location of Sale: FirstSouthwest, a Division of Hilltop Securities Inc., 54 Canal Street, 3rd Floor, Boston, Massachusetts 02114.

Issuer: Town of Arlington, Massachusetts.

Issue: \$25,660,000 General Obligation Municipal Purpose Loan of 2016 Bonds, see "THE BONDS Book-Entry-Transfer System" herein.

Official Statement Dated: October 26, 2016.

Dated Date of the Bonds: As of their date of delivery.

Principal Due: Serially November 1, 2017 through November 1, 2034 and November 1, 2037, with Term Bonds maturing November 1, 2036, November 1, 2041 and November 1, 2045, as detailed herein.

Purpose and Authority: The Bonds are authorized for various municipal purposes by the Town under provisions of the Massachusetts General Laws as detailed herein.

Redemption: The Bonds will be subject to redemption prior to their stated maturity dates as detailed herein.

Security: The Bonds are valid general obligations of the Town of Arlington, Massachusetts, and that the principal of and interest on the Bonds are payable from taxes that may be levied upon all the property within the territorial limits of the Town, without limit as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

Credit Rating: S&P Global Ratings has assigned a rating of AAA to the Bonds.

Bond Insurance: The Town has not contracted for the issuance of any policy of municipal bond insurance or any other credit enhancement facility.

Basis of Award: Lowest True Interest Cost (TIC), as of the dated date. **Bids must include a premium of at least \$130,000.**

Tax Exemption: Refer to "THE BONDS - Tax Exemption" herein and Appendix B, "Proposed Form of Legal Opinion."

Continuing Disclosure: Refer to "THE BONDS - Continuing Disclosure" herein and Appendix C, "Proposed Form of Continuing Disclosure Certificate."

Bank Qualification: The Bonds will not be designated by the Town as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Paying Agent: U.S. Bank National Association, Boston, Massachusetts.

Legal Opinion: Locke Lord LLP, Boston, Massachusetts.

Financial Advisor: FirstSouthwest, a Division of Hilltop Securities Inc., Boston, Massachusetts.

Delivery and Payment: It is expected that delivery of the Bonds in book-entry only form will be made to The Depository Trust Company, or to its custodial agent, on or about November 9, 2016, against payment in Federal Funds.

Issuer Official: Questions concerning the Official Statement should be addressed to: Mr. Stephen Gilligan, Treasurer, Town of Arlington, Massachusetts Telephone (781) 316-3031 or Peter Frazier, Managing Director, FirstSouthwest, a Division of Hilltop Securities Inc., Boston, Massachusetts Telephone (617) 619-4409.

NOTICE OF SALE

TOWN OF ARLINGTON, MASSACHUSETTS \$26,128,000* GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2016 BONDS

The Town of Arlington, Massachusetts (the "Town") will receive sealed and electronic (as described herein) proposals until 11:00 A.M., Eastern Daylight Time, Wednesday, October 26, 2016, for the purchase of the following described General Obligation Municipal Purpose Loan of 2016 Bonds of the Town (the "Bonds"):

\$26,128,000* General Obligation Municipal Purpose Loan of 2016 Bonds payable November 1 of the years and in the amounts as follows:

Due November 1	Principal Amount*	Due November 1	Principal Amount*
2017	\$ 1,413,000	2032	\$ 855,000 **
2018	1,375,000	2033	855,000 **
2019	1,350,000	2034	845,000 **
2020	1,330,000	2035	840,000 **
2021	1,310,000	2036	840,000 **
2022	1,155,000	2037	570,000 **
2023	1,140,000	2038	570,000 **
2024	1,050,000	2039	570,000 **
2025	1,045,000	2040	570,000 **
2026	1,035,000	2041	570,000 **
2027	975,000 **	2042	570,000 **
2028	975,000 **	2043	570,000 **
2029	975,000 **	2044	570,000 **
2030	970,000 **	2045	300,000 **
2031	935,000 **		

*Preliminary, subject to change.

**Callable maturities. May be combined into one, two or three Term Bonds as described herein.

The Bonds will be dated their date of delivery. Principal of the Bonds will be payable on November 1 of the years in which the Bonds mature. Interest will be payable on May 1 and November 1, commencing November 1, 2017.

The Bonds will be issued by means of a book-entry system with no physical distribution of the Bonds made to the public. One certificate for each maturity of the Bonds will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in its custody. Ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with the exception of three \$1,000 denominations maturing in 2017, will be evidenced by a book-entry system with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures established by DTC and its Participants. The winning bidder, as a condition to delivery of the Bonds, shall be required to deposit the Bonds with DTC, registered in the name of Cede & Co. Interest and principal on the Bonds will be payable to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC. Transfer of principal and interest payments to beneficial owners will be the responsibility of such participants and other nominees of beneficial owners. The Town will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

The original Bonds to be immobilized at DTC will be prepared under the supervision of FirstSouthwest, a Division of Hilltop Securities Inc., Boston, Massachusetts and their legality will be approved by Locke Lord LLP, Boston, Massachusetts, whose opinion will be furnished to the purchaser without charge.

The Bonds maturing on and before November 1, 2026 are not subject to redemption prior to their stated maturity dates. Bonds maturing on and after November 1, 2027 are subject to redemption prior to their stated maturity dates, at the option of the Town, on and after November 1, 2026, either in whole or in part at any time, and if in part, by lot within a maturity, **at the par amount of the Bonds to be redeemed**, plus accrued interest to the date set for redemption.

For Bonds maturing on and after November 1, 2027, bidders may specify that all of the principal amount of such Bonds in any two or more consecutive years may, in lieu of maturing in each such year, be combined to comprise one, two or three Term Bonds, and shall be subject to mandatory redemption or mature a par, as described above, in each of the years and in the principal amounts specified in the foregoing maturity schedule. Each mandatory redemption shall be allocated to the payment of the Term Bond maturing in the nearest subsequent year. Bidders may specify no more than three Term Bonds.

Term Bonds, if any, shall be subject to mandatory redemption on November 1 of the year or years immediately prior to the stated maturity of such Term Bond (the particular Bonds of such maturity to be redeemed to be selected by lot) as indicated in the foregoing maturity schedule at the principal amount thereof plus accrued interest to the redemption date, without premium.

Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

Bidding Parameters

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in a multiple of 1/20 or 1/8 of one percent, but shall not state (a) more than one interest rate for any Bonds having a like maturity, (b) any interest rate which exceeds the interest rate stated for any other Bonds by more than 3 percent or (c) **any coupon in excess of 4.0%. NO BID OF LESS THAN PAR PLUS A PREMIUM OF AT LEAST \$130,000 WILL BE CONSIDERED.**

The Town reserves the right to change the aggregate principal amount of the Bonds and the maturity schedule after the determination of the winning bid by increasing or decreasing the aggregate principal amount and the principal amount of each maturity by such amounts as may be necessary to change the maturity schedule of the bonds by its pro-rata share of the premium received, and increasing or decreasing the amount of each maturity by such amounts as may be necessary after taking into account the interest cost to the Town to achieve approximate level debt service based on the new par amount of the Bonds. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE ANNUAL PRINCIPAL AMOUNTS WITHIN THESE LIMITS. The dollar amount bid for the Bonds by the winning bidder will be adjusted, if applicable, to reflect changes in the dollar amount of the amortization schedule. Any price that is adjusted will reflect changes in the dollar amount of the underwriter's discount and original issue premium, if any, but will not change the per bond underwriter's discount (net of insurance premium, if any) provided in such bid. Nor will it change the interest rate specified for each maturity. Any such adjustments will be communicated to the winning bidder for the Bonds by 4 P.M. on the day of the sale.

Bids must be submitted either:

- (a) In a sealed envelope marked "Proposal for Bonds" and addressed to Mr. Stephen Gilligan, Treasurer, Town of Arlington, Massachusetts c/o FirstSouthwest, a Division of Hilltop Securities Inc., 54 Canal Street, Boston, Massachusetts 02114. Signed blank bid forms may be faxed to (617) 619-4411 prior to submitting bids, and actual bids may be telephoned to FirstSouthwest, a Division of Hilltop Securities Inc., telephone (617) 619-4400, at least one-half hour prior to the 11:00 A.M. sale and after receipt of the faxed bid form by FirstSouthwest, a Division of Hilltop Securities Inc. FirstSouthwest, a Division of Hilltop Securities Inc. will act as agent for the bidder, but neither the Town nor FirstSouthwest, a Division of Hilltop Securities Inc. shall be responsible for any errors in connection with bids submitted in this manner.
- (b) Electronically via Parity in accordance with this Notice of Sale. To the extent any instructions or directions set forth in Parity conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about Parity, potential bidders may contact the Financial Advisor to the Town or I-deal at 40 West 23rd Street, 5th Floor, New York, NY 10010 (212) 404-8102. An electronic bid made in accordance with this Notice of Sale shall be deemed an offer to purchase the Bonds in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the Town.

The award of the Bonds to the winning bidder will not be effective until the bid has been approved by the Treasurer and the Board of Selectmen of the Town.

The right is reserved to reject all bids and to reject any bid not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any proposal.

The Town of Arlington has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for issuance of any such policy or commitment therefor, any purchase of such insurance or commitment shall be at the sole option and expense of the bidder. Proposals shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued shall

not in any way relieve the purchaser of its contractual obligations arising from the acceptance of its proposal for the purchase of the Bonds. Should the bidder purchase municipal bond insurance, all expenses associated with such policy or commitment will be borne by the bidder, except for the fees paid to S&P Global Ratings for ratings on the Bonds. Any such fees paid to S&P Global Ratings would be borne by the Town.

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that it shall be furnished, without cost, with (a) the approving opinion of the firm of Locke Lord, LLP, Boston, Massachusetts, substantially in the form appearing as Appendix B of the Preliminary Official Statement dated October 19, 2016, (b) a certificate in the form satisfactory to Bond Counsel dated as of the date of delivery of the Bonds and receipt of payment therefor to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened which affects the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, (c) a certificate of the Town Treasurer to the effect that, to the best of his knowledge and belief, as of the date of sale the Preliminary Official Statement did not, and as of the date of the delivery of the Bonds, the Final Official Statement does not, contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, and (d) a Continuing Disclosure Certificate in the form appearing as Appendix C of the Preliminary Official Statement.

In order to assist bidders in complying with Rule 15c2-12 (b)(5) promulgated by the Securities and Exchange Commission, the Town will undertake to provide annual reports and notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement.

The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986 as amended (the "Code").

Additional information concerning the Town of Arlington and the Bonds is contained in the Preliminary Official Statement dated October 19, 2016, to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. Said Preliminary Official Statement is deemed final by the Town except for the omission of the reoffering price(s), interest rate(s), delivery date, the identity of the underwriter(s), and any other pertinent terms of the Bonds depending on such matters, but is subject to change without notice to completion or amendment in a Final Official Statement. Copies of the Preliminary Official Statement may be obtained from FirstSouthwest, a Division of Hilltop Securities Inc., 54 Canal Street, Boston, Massachusetts 02114 (Telephone: 617-619-4400). Within seven (7) business days following the award of the Bonds in accordance herewith, 10 copies of the Final Official Statement will be available from the FirstSouthwest, a Division of Hilltop Securities Inc. to the successful bidder for use in reoffering the Bonds. Upon request, additional copies will be provided at the expense of the requester.

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the Town a certificate acceptable to Bond Counsel to the effect that (i) as of October 26, 2016 (the "Sale Date"), the purchaser had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

It is anticipated that CUSIP identification numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the Town, provided, however, that the Town assumes no responsibility for any CUSIP Service Bureau or other charge that may be imposed for the assignment of such numbers.

The Bonds in definitive form will be delivered to The Depository Trust Company or its custodial agent on or about November 9, 2016 for settlement in federal funds.

TOWN OF ARLINGTON, MASSACHUSETTS
/s/ Stephen Gilligan, Treasurer

October 19, 2016

OFFICIAL STATEMENT

TOWN OF ARLINGTON, MASSACHUSETTS

\$25,660,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2016 BONDS

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Arlington, Massachusetts (the "Town") in connection with the sale of \$25,660,000 stated principal amount of its General Obligation Municipal Purpose Loan of 2016 Bonds (the "Bonds"). The information contained herein has been furnished by the Town, except information attributed to another governmental agency or official as the source.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will bear interest payable semiannually on May 1 and November 1, commencing November 1, 2017. The Bonds shall mature on November 1 of the years and in the principal amounts as set forth on the first page of this Official Statement.

The Bonds are issuable only in fully registered form without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000, or any integral multiple thereof. Purchasers will not receive certificates representing their interests in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Transfer System" herein.)

Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

Redemption Provisions

Optional Redemption

Bonds maturing on or prior to November 1, 2026 shall not be subject to redemption prior to their stated maturity dates. Bonds maturing on or after November 1, 2027 shall be subject to redemption prior to maturity, at the option of the Town, on or after November 1, 2026, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Bonds to be redeemed, plus accrued interest to the date set for redemption.

Mandatory Redemption

The Bonds maturing November 1, 2036, November 1, 2041 and November 1, 2045 (the "Term Bonds") are subject to mandatory redemption or maturity on each of the dates and in each of the principal amounts as set forth below (the particular portion of each Term Bond to be redeemed or to mature on the final maturity date to be delivered by lot), at a redemption price of par, plus accrued interest, if any, to the redemption date.

\$1,650,000 Term Bond Maturing November 1, 2036

<u>November 1</u>	<u>Principal Amount</u>
2035	\$ 825,000
2036 *	825,000

*Final Maturity.

\$2,220,000 Term Bond Maturing November 1, 2041

<u>November 1</u>	<u>Principal Amount</u>
2038	\$ 555,000
2039	555,000
2040	555,000
2041 *	555,000

\$1,950,000 Term Bond Maturing November 1, 2045

<u>November 1</u>	<u>Principal Amount</u>
2042	\$ 555,000
2043	555,000
2044	555,000
2045 *	285,000

*Final Maturity.

Notice of Redemption

Notice of any redemption of Bonds, prior to their dates of maturity, specifying the Bonds (or the portions thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the Direct Participants of the redemption or failure on the part of DTC's Participants, Indirect Participants or of a nominee of a Beneficial Owner having received notice from a DTC Participant or otherwise to notify the Beneficial Owners shall not affect the validity of the redemption.

Record Date

The record date for each payment of interest is the fifteenth day of the month preceding the interest payment date, and if such date is not a business day, the record date shall be the next succeeding business day; provided that, with respect to overdue interest, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the Bondowners at least ten (10) days before the special record date.

Book-Entry Transfer System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security deposited by DTC ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the securities deposited by DTC are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the securities deposited with DTC, except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities deposited with DTC; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with DTC unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Town or its paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the issuer of such securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of such securities or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to securities held by it at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

Authorization of the Bonds and Use of Proceeds

The bonds are being issued for the following purposes under the following town meeting votes and statutes:

This Issue	Purpose	Original Bond Authorization	Bond Anticipation Notes Outstanding	M.G.L. Chapter 44, Section	Dates of Authorization
\$ 7,647,000	Community Safety Building	\$ 7,647,000	\$ 7,647,000	7(3A)	4/29/2015
500,000	Peirce Field Turf Replacement	500,000	500,000	7(25)	4/29/2015
1,085,000	Stratton Building Improvements	1,085,000	1,085,000	7(3A)	4/29/2015
3,100,000	Stratton Modular Classrooms	3,100,000	2,000,000	7(3A)	1/25/2016
219,000	Stratton School Renovations	9,966,000		7(3A)	1/25/2016
8,279,000	Stratton School Renovations	9,966,000 (1)	4,000,000	7(3A)	1/25/2016
1,200,000	Ladder #1009 Tower Unit	1,200,000		7(9)	5/16/2016
200,000	Replacement of Receivables Package	200,000		7(29)	5/16/2016
87,000	Computer Software	87,000		7(29)	5/16/2016
30,000	IT/Comptroller Department Alarm System	30,000		7(9)	5/16/2016
419,000	District wide replacement of PC's	419,000		7(28)	5/16/2016
40,000	School software licensing	40,000		7(29)	5/16/2016
40,000	School department administrative computers	40,000		7(28)	5/16/2016
50,000	School department network infrastructure	50,000		7(28) & 7(29)	5/16/2016
30,000	Town network Infrastructure - wireless coverage	30,000		7(28) & 7(29)	5/16/2016
50,000	Town software upgrades & standardization	50,000		7(29)	5/16/2016
60,000	Town micro computer program	60,000		7(28)	5/16/2016
32,000	MLN computer project (library)	32,000		7(28) & 7(29)	5/16/2016
20,000	Gateway Project Phase 2 & 3	20,000		7(9)	5/16/2016
45,000	1 Ton Truck	45,000		7(9)	5/16/2016
50,000	Cemetery Chapel/Garage Rehab	50,000		7(3A)	5/16/2016
250,000	Bridge Replacement Design- Mystic/Mill Brook	250,000		7(22)	5/16/2016
65,000	1 Ton Utility Truck	65,000		7(9)	5/16/2016
65,000	1 Ton dump truck with plow/sander	65,000		7(9)	5/16/2016
47,000	1 Ton Utility with gate lift	47,000		7(9)	5/16/2016
162,000	4WD Truck with sander	162,000		7(9)	5/16/2016
175,000	4WD Truck with sander w/dump body	175,000		7(9)	5/16/2016
65,000	Sidewalk ramps	65,000		7(6)	5/16/2016
17,000	Sander body	17,000		7(9)	5/16/2016
50,000	Traffic signals upgrade	50,000		7(14)	5/16/2016
1,000,000	DPW Facility design	1,000,000		7(3A)	5/16/2016
50,000	DPW Facility Oversight of design and construction	50,000		7(3A)	5/16/2016
50,000	ADA Study Implementation program	50,000		7(25)	5/16/2016
90,000	ARB - 23 Maple Street entrance	90,000		7(3A)	5/16/2016
95,000	School Bus - #106	95,000		7(9)	5/16/2016
125,000	Menotomy Preschool Renovation	125,000		7(3A)	5/16/2016
125,000	Snow Cat	125,000		7(9)	5/16/2016
46,000	Menotomy Preschool Playground	46,000		7(25)	5/16/2016
<u>\$ 25,660,000</u>			<u>\$ 15,232,000</u> (2)		

(1) Of the total \$9,966,000 authorization, only \$8,747,268 is exempt from the limitations of Proposition 2 ½.

(2) This issue will retire a like amount of bond anticipation notes maturing November 10, 2016.

Principal Payments by Purpose

Year	Improvements/ Renovations	Equipment	Hardware & Software	Recreation	Bridge Replacement Design - Mystic/Mill Brook	Install Sidewalk Ramps*	Traffic Signals Upgrade	Total
2017	\$ 875,000	\$ 231,000	\$ 178,000	\$ 51,000	\$ 50,000	\$ 5,000	\$ 5,000	\$ 1,395,000
2018	870,000	220,000	160,000	50,000	50,000	5,000	5,000	1,360,000
2019	870,000	210,000	150,000	45,000	50,000	5,000	5,000	1,335,000
2020	860,000	205,000	140,000	45,000	50,000	5,000	5,000	1,310,000
2021	855,000	190,000	140,000	45,000	50,000	5,000	5,000	1,290,000
2022	850,000	180,000	50,000	45,000		5,000	5,000	1,135,000
2023	845,000	170,000	50,000	45,000		5,000	5,000	1,120,000
2024	845,000	80,000	50,000	45,000		5,000	5,000	1,030,000
2025	845,000	80,000	45,000	45,000		5,000	5,000	1,025,000
2026	845,000	80,000	45,000	40,000		5,000	5,000	1,020,000
2027	840,000	80,000		35,000		5,000		960,000
2028	840,000	80,000		35,000		5,000		960,000
2029	840,000	80,000		35,000		5,000		960,000
2030	840,000	80,000		35,000				955,000
2031	840,000	80,000						920,000
2032	840,000							840,000
2033	840,000							840,000
2034	830,000							830,000
2035	825,000							825,000
2036	825,000							825,000
2037	555,000							555,000
2038	555,000							555,000
2039	555,000							555,000
2040	555,000							555,000
2041	555,000							555,000
2042	555,000							555,000
2043	555,000							555,000
2044	555,000							555,000
2045	285,000							285,000
Total	<u>\$ 21,645,000</u>	<u>\$ 2,046,000</u>	<u>\$ 1,008,000</u>	<u>\$ 596,000</u>	<u>\$ 250,000</u>	<u>\$ 65,000</u>	<u>\$ 50,000</u>	<u>\$ 25,660,000</u>

Tax Exemption

In the opinion of Locke Lord LLP, Bond Counsel to the Town (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The Bonds will NOT be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Town has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a Bondholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

Security and Remedies

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for "qualified bonds" as described below (see "*Serial Bonds and Notes*" under "INDEBTEDNESS-TYPES OF OBLIGATIONS" below) and setoffs of state distributions as described below (see "*State Distributions*" below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year "all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments". Specific provision is also made for including in the next tax levy payments of

rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid, if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See “*Tax Limitations*” under “PROPERTY TAXATION” below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit. (See “INDEBTEDNESS-Authorization Procedures and Limitations” below.) Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law. (See “*Tax Limitations*” under “PROPERTY TAXATION” below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, community preservation and affordable housing purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on “qualified bonds” (See “*Serial Bonds and Notes*” under “INDEBTEDNESS-TYPES OF OBLIGATIONS” below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority (“MBTA”) or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority (“MWRA”) if the city or town is within the territory served by the MWRA, for any debt service due on obligations issued to the Massachusetts School Building Authority (“MSBA”), or for charges necessary to meet obligations under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater collection or treatment services or drinking water services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State

Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by The Commonwealth of Massachusetts (the "Commonwealth") to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions, and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act has sometimes been delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not generally authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy laws. In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth's oversight of the financially distressed city, town or regional school district. To date, no such filings have been approved or made.

Opinion of Bond Counsel

The purchaser will be furnished the legal opinion of the firm of Locke Lord, LLP, Boston, Massachusetts ("Bond Counsel"). The opinion will be dated and given on and will speak only as of the date of original delivery of the Bonds to the successful bidder. The opinion will be substantially in the form presented in Appendix B.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel is not passing upon and does not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and makes no representation that they have independently verified the same.

Rating

S&P Global Ratings has assigned a rating of AAA to the Bonds. The rating only reflects the rating agency's views and is be subject to revision or withdrawal, which could affect the market price of the Bonds.

Financial Advisory Services of FirstSouthwest, a Division of Hilltop Securities Inc.

FirstSouthwest, a Division of Hilltop Securities Inc., Boston, Massachusetts serves as financial advisor to the Town.

First Southwest Company LLC ("FirstSouthwest") merged with its common control affiliate, Hilltop Securities Inc. ("HilltopSecurities"). The merger was completed at the close of business on January 22, 2016, at which time Hilltop Securities, as the surviving entity, automatically assumed all rights and obligations of FirstSouthwest. The firm's municipal advisory business will continue to operate as FirstSouthwest, a Division of Hilltop Securities Inc.

Continuing Disclosure

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the Town will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Town by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. Other than the Town, there are no obligated persons with respect to the Bonds within the meaning of the Rule. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds.

In the past five years, the Town believes that it has complied, in all material respects, with its previous undertakings to provide annual reports or notices of significant events in accordance with the Rule.

THE TOWN OF ARLINGTON, MASSACHUSETTS

General

The Town, established in 1867, was originally incorporated as the Town of West Cambridge in 1807. Located approximately seven miles from downtown Boston, it is bordered on the east by the Cities of Cambridge and Somerville, on the north by the City of Medford, on the west by the Town of Lexington and on the south by the Town of Belmont. The Town is primarily a residential community which occupies a land area of 5.2 square miles and, according to the 2010 federal census, has a population of 42,844 persons.

Local Government

Local legislative decisions are made by a representative town meeting form of government whose members (approximately 252) are elected for staggered three-year terms from 21 precincts. Subject to the legislative decisions made by the town meeting, the affairs of the Town are generally administered by a board of five selectmen and a town manager.

Local taxes are assessed by a board of three assessors elected for staggered three-year terms. Local school affairs are administered by a school committee of seven persons, elected for staggered three-year terms on an at-large basis.

Principal Executive Officers

Following are the principal executive officers of the Town:

<u>Office</u>	<u>Name</u>	<u>Manner of Selection and Term</u>	<u>Term Expires</u>
Selectmen	Diane M. Mahon, Chair	Elected – 3 years	2017
	Daniel J. Dunn, Vice Chair	Elected – 3 years	2017
	Kevin F. Greeley	Elected – 3 years	2019
	Steven M. Byrne	Elected – 3 years	2018
	Joseph A. Curro, Jr.	Elected – 3 years	2018
Town Manager	Adam W. Chapdelaine	Appointed – 3 years	2019
Town Treasurer/Collector	Stephen J. Gilligan	Elected – 3 years	2017
Town Clerk	Stephanie Lucarelli	Elected – 3 years	2017
Comptroller	Richard Viscay	Appointed – 3 years	2018

Municipal Services

The Town provides general governmental services including police and fire protection, public education in grades K-12, water, sewer and health services, streets, libraries and parks and recreation. The Minuteman Regional Vocational-Technical School District, of which the Town is a member, provides certain technical education at the high school level. The Massachusetts Water Resources Authority provides certain sewage disposal services and water services for the Town. The Town has a Redevelopment Board and a Department of Planning and Community Development. The Arlington Housing Authority provides public housing in approximately 1,100 units for eligible low income families, the elderly, and the handicapped.

The MBTA provides local bus service connecting to Boston, Cambridge and other surrounding communities and rapid transit via the “Red Line” subway at its terminal in Cambridge on the Arlington border. Principal highways serving the Town are State Routes 2, 2A and 60 and U.S. Route 3.

Education

Public School Facilities

<u>Name</u>	<u>Date Built</u>	<u>Date Added To (Remodeled)</u>	<u>Capacity</u>
Arlington High School	1912	1938, 1959, 1981	1,600
Ottoson Middle School	1930	1950, 1979, 1996	1,100
Elementary:			
Bishop	1950	2000	350
Brackett	1999		425
Dallin	2006		350
Hardy	1925	1949, 2001	350
Peirce	2002		300
Stratton	1962	1968	450
Thompson	1956	2013	380
Total			5,305

Public School Enrollments

	<u>Actual</u>					<u>Projected</u>
	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
K-5	2,583	2,531	2,721	2,742	2,839	2,845
6-8	1,012	1,018	1,056	1,125	1,130	1,239
9-12	1,223	1,323	1,207	1,294	1,250	1,274
Special Ed.	96	95	122	838	104	104
Total	<u>4,914</u>	<u>4,967</u>	<u>5,106</u>	<u>5,999</u>	<u>5,323</u>	<u>5,462</u>

Source: School Department as of October 1 each year. Does not include enrollment for Minuteman Regional Vocational-Technical High School. Special Ed. reflects out of District placements.

Educational Attainment

<u>Years of School Completed</u>	<u>Arlington</u>			<u>Middlesex County</u>			<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>		<u>Number</u>	<u>Percent</u>		<u>Number</u>	<u>Percent</u>
Less than 9th grade	725	2.3 %		39,450	3.8 %		216,669	4.9 %
9th to 12th grade, No diploma	774	2.4		44,636	4.3		268,218	6
High School Graduate	5,236	16.3		228,467	21.9		1,156,650	25.9
Some College, No Degree	3,280	10.2		143,456	13.7		739,171	16.6
Associate's Degree	1,483	4.6		63,971	6.1		344,724	7.7
Bachelor's Degree	9,273	28.8		268,306	25.7		989,299	22.2
Graduate or Professional Degree	11,415	35.4		255,610	24.5		751,167	16.7
Total	<u>32,186</u>	<u>100.0 %</u>		<u>1,043,896</u>	<u>100.0 %</u>		<u>4,465,898</u>	<u>100.0 %</u>

Source: U.S. Department of Commerce (2012 5 year estimates).

Population

Year	Arlington		Middlesex County		Massachusetts	
	Number	% Change	Number	% Change	Number	% Change
2013 (est.)	44,028	2.8%	1,552,802	3.3%	6,692,824	2.2%
2010	42,844	1.1	1,503,085	2.6	6,547,629	3.1
2000	42,389	(5.0)	1,465,396	4.8	6,349,097	5.5
1990	44,630	(7.4)	1,398,468	2.3	6,016,425	4.9
1980	48,219	(9.9)	1,367,034	(2.2)	5,737,037	0.8

Source: U.S. Department of Commerce.

Population Density (1)

Year	Arlington		Middlesex County		Massachusetts	
	Number	Density (2)	Number	Density	Number	Density
2013 (est.)	44,028	8,494.7	1,552,802	1,885.5	6,692,824	853.9
2010	42,844	8,266.3	1,503,085	1,825.1	6,547,629	835.4
2000	42,389	8,179.6	1,465,396	1,779.6	6,349,097	809.8
1990	44,630	8,610.8	1,398,468	1,698.1	6,016,425	767.6
1980	48,219	9,303.3	1,367,034	1,659.9	5,737,037	732.0

(1) Source: U.S. Department of Commerce, Bureau of the Census (2013, 2010, 2000, 1990, 1980).

(2) Based on 5.2 square miles.

Industry and Commerce

As indicated below, economic activity in the Town largely consists of the wholesale and retail trade and service industries. In 2015, 1,1,105 firms were located in Arlington, with a total annual payroll \$442,743,080, reported to the U.S. Department of Labor and Training.

Due to the reclassification the U.S. Department of Labor now uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

Industry	Calendar Year Average				
	2011	2012	2013	2014	2015
Construction	894	946	924	929	919
Manufacturing	105	109	109	106	102
Trade, Transportation and Utilities	1,165	1,191	1,214	1,301	1,310
Information	258	281	283	297	279
Financial Activities	486	507	540	505	551
Professional and Business Services	802	805	821	826	871
Education and Health Services	2,470	2,575	2,817	2,860	2,925
Leisure and Hospitality	878	871	905	921	962
Other Services	670	695	661	647	645
Public Administration	439	452	425	428	445
Total Employment	8,167	8,432	8,699	8,820	9,009
Number of Establishments	1,031	1,038	1,033	1,073	1,105
Average Weekly Wages	\$ 834	\$ 844	\$ 871	\$ 904	\$ 945
Total Wages	\$ 354,072,292	\$ 369,901,469	\$ 393,859,980	\$ 414,389,367	\$ 442,743,080

Source: Massachusetts Department of Education and Training. Data based upon place of employment, not place of residence.

Unemployment

According to the Massachusetts Department of Employment and Training, in July 2016 the Town had a total labor force of 26,380 of whom 25,652 were employed and 728 or 2.8% were unemployed as compared with 3.9% for the Commonwealth.

The following table sets forth the Town's average labor force and unemployment rates for calendar years 2011 through 2015 and the unemployment rates for the Commonwealth and the U.S. for the same periods:

<u>Year</u>	<u>Arlington</u>	<u>Massachusetts</u>	<u>United States</u>
2015	3.3%	4.9%	5.0%
2014	3.8	5.8	6.2
2013	4.8	7.1	7.4
2012	4.9	6.7	9.2
2011	4.7	6.9	8.5

Source: Massachusetts Department of Employment and Training. Data based upon place of residence, not place of employment.

Principal Employers

Excluding the Town, the following are the principal employers located in the Town:

<u>Company</u>	<u>Nature of Business</u>	<u>Approximate Current Employees</u>
Armstrong Ambulance	Medical Transportation	350
American Alarm	Security Specialists	200
Mirak Hyundai, Inc.	Auto Sales/Service	200
Whole Foods Market	Supermarket Retail	148
Sunrise Assisted Living	Elder Care Facility	125
Germain Lawrence, Inc.	Education (Special Needs)	120
Park Avenue Nursing Home	Elder Care Facility	110
Children's Music Network	Education	100
Dearborn Academy	Education	100
Mirak Chevrolet	Auto Sales/Service	100
Mirak Parts & Truck Center	Auto Sales/Service	97

Source: Planning Department and the companies listed.

Income Levels

	<u>Arlington</u>		<u>Middlesex County</u>		<u>Massachusetts</u>	
	<u>Amount</u>	<u>% Change from Previous Census</u>	<u>Amount</u>	<u>% Change from Previous Census</u>	<u>Amount</u>	<u>% Change from Previous Census</u>
Per Capita:						
2012 (5 yr. est.)	\$49,166	42.9%	\$42,289	35.5%	35,485	36.7%
1999	34,399	60.4	31,199	53.4	25,952	50.7
1989	21,449	141.3	20,343	141.1	17,224	131.0
1979	8,890	NA	8,439	NA	7,457	NA
1969	NA	NA	NA	NA	NA	NA
Median Family Income (2012 (est.))	\$111,086		\$102,480		\$84,380	
Median Household						
Income (2012 (est.))	\$87,525		\$81,420		\$66,658	
% Below Poverty Level (2012)	4.5%		7.9%		11.0%	

Source: U.S. Department of Commerce.

Family Income Distribution

	Arlington			Middlex County			Massachusetts	
	Families	Percent		Families	Percent		Families	Percent
Less than \$10,000	93	0.9 %		8,758	2.4 %		57,204	3.6 %
\$10,000 - \$24,999	468	4.3		22,381	6.1		132,790	8.3
\$25,000 - \$49,000	1,120	10.3		47,577	12.9		260,930	16.3
\$50,000 - \$74,999	1,368	12.6		50,166	13.6		257,973	16.1
\$75,000 - \$99,999	1,606	14.7		50,766	13.7		235,746	14.7
\$100,000 - \$149,999	2,605	23.9		84,320	22.8		331,738	20.7
\$150,000 or more	3,633	33.3		106,960	28.6		327,825	20.3
Total	10,893	100.0 %		370,928	100.1 %		1,604,206	100.0 %

Source: U.S. Department of Commerce (2012 5 Yr. est.)

Household Income Distribution

	Arlington			Middlex County			Massachusetts	
	Households	Percent		Households	Percent		Households	Percent
Less than \$10,000	825	4.3 %		27,350	4.7 %		159,535	6.3 %
\$10,000 - \$24,999	1,818	9.5		62,187	10.7		345,816	13.7
\$25,000 - \$49,000	2,550	13.4		91,079	15.7		472,301	18.7
\$50,000 - \$74,999	2,977	15.6		87,693	15.1		412,921	16.3
\$75,000 - \$99,999	2,709	14.2		76,803	13.3		329,572	13.0
\$100,000 - \$149,999	3,704	19.4		111,082	19.2		422,194	16.7
\$150,000 or more	4,504	23.6		123,015	21.2		383,355	15.2
Total	19,087	100.0 %		579,209	100.0 %		2,525,694	100.0 %

Source: U.S. Department of Commerce (2012 5 yr. est.).

Housing Units – Age Distribution – 2012 (5 year estimates)

Year Built	Arlington			Middlex County			Massachusetts	
	Number	Percent		Number	Percent		Number	Percent
2000 or later	704	3.5 %		43,257	7.1 %		199,233	7.1 %
1980 to 1999	871	4.4		99,270	16.2		508,334	18.1
1940 to 1979	7,980	40.1		244,858	40.1		1,115,159	39.8
1939 or earlier	10,364	52.0		223,953	36.6		981,480	35.0
Total	19,919	100.0 %		611,338	100 %		2,804,206	100.0 %

Source: U.S. Department of Commerce.

Housing Unit Inventory – 2012 (5 year estimates)

Units	Arlington		Middlesex County		Massachusetts	
	Number	Percent	Number	Percent	Number	Percent
1, Detached	8,573	43.0 %	298,215	48.8 %	1,471,460	52.5 %
1, Attached	929	4.7	37,571	6.1	141,098	5.0
2 to 4	6,209	31.2	136,346	22.3	596,892	21.3
5 to 9	697	3.5	31,742	5.2	168,231	6.0
10 to 19	986	4.9	28,685	4.7	120,233	4.3
20 or more	2,525	12.6	76,246	12.5	281,775	10.0
Mobile Home, Trailer, Other	10	0.1	2,533	0.4	24,517	0.9
Total	19,929	100.0 %	611,338	100.0 %	2,804,206	100.0 %

Source: U.S. Department of Commerce.

Housing Values – Specified Owner-Occupied (One Unit, Detached or Attached)

Units	Arlington		Middlesex County		Massachusetts	
	Number	Percent	Number	Percent	Number	Percent
Less than \$100,000	111	1.0 %	8,186	2.2 %	55,908	3.5 %
\$100,000 - \$199,999	320	2.7	20,196	5.5	201,702	12.6
\$200,000 - \$299,999	643	5.6	58,603	16.0	402,530	25.3
\$300,000 - \$499,999	4,970	43.2	162,541	44.4	603,907	37.8
\$500,000 - \$999,999	5,290	46.0	98,530	26.9	276,805	17.3
\$1,000,000 or more	171	1.5	18,069	4.9	55,107	3.5
Total	11,505	100.0 %	366,125	100.0 %	1,595,959	100.0 %

Source: U.S. Census Bureau (2012 5 year est).

Building Permits

Calendar Year	Number of Permits	Estimated Value
2016 (1)	909	\$ 38,018,800
2015	2,008	57,186,851
2014	1,760	63,109,553
2013	1,847	56,640,122
2012	2,037	107,957,167 (2)

Source: Board of Assessors.

(1) Issued through June 30, 2016.

(2) Increase due to Arlington 360 LLC Symmes redevelopment project (approximately \$46,587,453) and SP 5 Wood Alta, LLC project (approximately \$11,439,342).

PROPERTY TAXATION

The principal source of revenue of the Town is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures, less estimated receipts from other sources, and less appropriations voted from available funds. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see "Tax Limitations" below.

The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds, the use of which is otherwise provided for by law, the deduction for appropriations voted from available funds for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Among the sums required by law to be included in the tax levy are debt and interest charges not otherwise provided for, amounts necessary to pay final judgments and, as described below, abatements of taxes in excess of applicable reserves.

A single tax rate applies in the Town for each fiscal year to the taxable valuation of the taxable real and personal property. The rate is equal to the amount to be raised divided by the total taxable valuation.

At present, the taxable valuation is required by law to be based on 100 percent of fair cash value. Legislation was enacted in 1975 to provide that, subject to limited state review, assessors may determine fair cash value by one or a combination of accepted methods, including comparison of sales prices, capitalization of income and replacement cost less depreciation.

Tax Levy Computation

The following table illustrates the manner in which the tax levy was determined for the following fiscal years:

	For Fiscal Year				
	2016	2015	2014	2013	2012
Gross Amount to be Raised:					
Appropriations	\$ 153,248,525	\$ 149,025,309	\$ 143,577,165	\$ 139,814,508	\$ 131,167,122
Other Local Expenditures	2,417,563	1,256,466	1,669,982	187,001	683,826
State and County Charges	3,113,547	3,077,946	2,998,089	2,989,683	2,846,071
Overlay Reserve	1,746,721	1,534,082	1,019,663	1,454,204	808,924
Total Gross Amount to be Raised	<u>160,526,355</u>	<u>154,893,803</u>	<u>149,264,899</u>	<u>144,445,396</u>	<u>135,505,943</u>
Less Estimated Receipts & Other Revenue:					
Estimated Receipts from State(1)	20,704,878	20,369,150	19,568,031	17,514,847	15,951,828
Estimated Receipts - Local	26,079,262	24,580,179	23,221,581	22,939,193	22,516,400
Available Funds Appropriated:					
Free Cash	-	-	-	970,000	-
Other Available Funds	978,468	1,266,528	1,126,249	4,211,975	1,449,972
Free Cash and Other Revenue Used to Reduce the Tax Rate	<u>3,785,846</u>	<u>3,392,925</u>	<u>3,611,528</u>	<u>800,000</u>	<u>585,249</u>
Total Estimated Receipts and Revenue	<u>51,548,454</u>	<u>49,608,782</u>	<u>47,527,389</u>	<u>46,436,015</u>	<u>40,503,449</u>
Net Amount to be Raised (Tax Levy)	<u>\$ 108,977,901</u>	<u>\$ 105,285,021</u>	<u>\$ 101,737,510</u>	<u>\$ 98,009,381</u>	<u>\$ 95,002,494</u>
Property Valuation	\$ 8,399,083,019	\$ 7,770,112,271	\$ 7,272,186,201	\$ 7,098,700,432	\$ 6,852,394,357
Tax Levy per \$1,000	\$12.80	\$13.55	\$13.79	\$13.61	\$13.66

Source: Board of Assessors.

Note: Property tax rates may not be set by the local assessors until they have been approved by the Commissioner of Revenue.

(1) Includes state aid as well as other payments from the Commonwealth.

Assessed and Equalized Valuations

Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation; the effective rate for open space must be at least 75 per cent of the effective rate for residential real property; and the share of commercial, industrial and personal property must not exceed 175 percent of their share of the total valuation. A city or town may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years or pursuant to a revised schedule as may be issued by the Commissioner.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land is valued for this purpose at five percent of fair cash value but not less than ten dollars per acre.

The following table sets forth the trend in assessed and equalized valuations of the Town:

	For Fiscal Year				
	2016	2015	2014	2013	2012
Real Property	\$8,399,083,019	\$7,666,363,651	\$7,272,186,201	\$7,098,700,432	\$6,852,394,357
Personal Property	114,815,530	103,748,620	105,443,220	102,576,650	102,400,210
Total Assessed Valuation	<u>\$8,513,898,549</u>	<u>\$7,770,112,271</u>	<u>\$7,377,629,421</u>	<u>\$7,201,277,082</u>	<u>\$6,954,794,567</u>
Equalized Valuation (1)	\$7,913,085,100	\$7,913,085,100	\$7,527,775,600	\$7,527,775,600	\$7,388,658,200
Assessed Valuation as a Percent of Equalized Valuation	107.6%	103.2%	98.0%	97.5%	94.1%

(1) Based on equalized valuation in effect for each year as determined biennially by the State Department of Revenue as of January 1 of even numbered calendar years effective for the next two years.

Tax Rates

The following shows the actual tax rates per \$1,000 of assessed valuation and the full value rate based on the equalized valuations for the last five prior fiscal years:

Fiscal Year	Actual Tax Rate	Full Value Rate
2016	\$12.80	\$13.77
2015	13.55	13.99
2014	13.79	13.51
2013	13.61	13.26
2012	13.66	12.86

Classification of Property

The following table shows the breakdown by classification of the total assessed valuation for the following fiscal years:

	Fiscal 2016 Assessed Valuation	% of Total Assessed Valuation	Fiscal 2015 Assessed Valuation	% of Total Assessed Valuation	Fiscal 2014 Assessed Valuation	% of Total Assessed Valuation
Residential	\$ 8,002,595,342	94.0 %	\$ 7,318,205,556	94.2 %	\$ 6,924,743,377	93.9 %
Commercial	378,899,077	4.5	332,008,695	4.3	331,293,424	4.5
Industrial	17,588,600	0.2	16,149,400	0.2	16,149,400	0.2
Personal	114,815,530	1.3	103,748,620	1.3	105,443,220	1.4
Total	<u>\$ 8,513,898,549</u>	<u>100.0 %</u>	<u>\$ 7,770,112,271</u>	<u>100.0 %</u>	<u>\$ 7,377,629,421</u>	<u>100.0 %</u>

Source: Board of Assessors.

Largest Taxpayers

Following is a list of the ten largest taxpayers in the Town based upon assessed valuations for fiscal year 2016, all of whom are current in their property tax payments:

Name	Nature of Business	Valuation Fiscal Year 2016
Arlington 360 LLC	Residential	\$67,800,000
NSTAR	Utility	33,974,080
US Reif Brigham Square	Residential & Commercial	29,250,400
Nostalgia Properties LLC	Residential	27,844,800
Boston Gas Company	Utility	27,372,330
Mirak-Bendetson Dev LLC	Residential	25,519,300
Old Colony Realty Partners LLC	Residential	23,424,500
Brentwood Realty Partners LLC	Residential	18,942,200
Claremont Arlington Suites LLC	Hotel	16,753,600
Millbrook Sq Apartments Co	Residential	16,470,200
Total:		<u>\$287,351,410</u>

Source: Board of Assessors.

State Equalized Valuation

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value".

The following table sets forth the trend in equalized valuations of the Town.

January 1	State Equalized Valuation	% Change
2016 (Proposed)	\$ 9,073,201,400	14.7 %
2014	7,913,085,100	5.1
2012	7,527,775,600	1.9
2010	7,388,658,200	(2.2)
2008	7,558,647,700	5.1
2006	7,189,083,600	13.0
2004	6,361,931,000	23.2

Local assessed valuations are determined annually as of January 1 and used for the fiscal year beginning on the next July 1.

Abatements and Overlay

The Town is authorized by law to increase each tax levy by an amount approved by the State Commissioner of Revenue as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy.

Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue, but uncollected real property taxes are ordinarily not written off until they become municipal "tax titles" by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of the tax and charging surplus.

The following table sets forth the amount of overlay reserve for the last five fiscal years and abatements granted during the fiscal year of levy:

	2016	2015	2014	2013	2012
Total Tax Levy	\$ 108,977,901	\$ 105,285,021	\$ 101,737,510	\$ 98,009,381	\$ 95,002,494
Overlay Reserve for Abatements	\$ 1,746,721	\$ 1,534,082	\$ 1,019,663	\$ 1,454,204	\$ 808,924
Percent of Tax Levy	1.6%	1.5%	1.0%	1.5%	0.9%
Abatements Granted:					
During Fiscal Year of Levy	\$ 328,230	\$ 343,829	\$ 323,139	\$ 391,307	\$ 427,191
Through June 30, 2016	\$ 328,330	\$ 105,760	\$ 59,931	\$ 6,805	\$ 3,746

Source: Town Accountant.

Tax Collections

The Town has accepted a statute providing for quarterly tax payments. Under that statute, preliminary tax payments are due on August 1 and November 1, with payment of the actual tax bill (after credit is given for the preliminary payments) in installments on February 15 and May 1 if actual tax bills are mailed by December 31. Interest accrues on delinquent taxes at the rate of 14 percent per annum.

The following table presents the total tax levy, the reserve for abatements, the net levy and the amounts collected as of June 30 for each of the last five fiscal years:

	For Fiscal Year				
	2016	2015	2014	2013	2012
Total Tax Levy	\$ 108,977,901	\$ 105,285,021	\$ 101,737,510	\$ 98,009,381	\$ 95,002,494
Overlay Reserve for Abatements	1,746,721	1,534,082	1,019,663	1,454,204	808,924
Net Tax Levy (1)	<u>\$ 107,231,180</u>	<u>\$ 103,750,939</u>	<u>\$ 100,717,847</u>	<u>\$ 96,555,177</u>	<u>\$ 94,193,570</u>
Amount Collected During					
Fiscal Year Payable (2)	\$ 108,707,180	\$ 104,791,454	\$ 101,147,225	\$ 97,319,166	\$ 94,287,097
Percent of Net Tax Levy Collected	101.4 %	101.0 %	100.4 %	100.8 %	100.1 %

(1) Net after deduction of overlay reserve for abatements.

(2) Actual collections of levy less refunds and amounts refundable but including proceeds of tax titles and tax possessions attributed to such levy but not including abatement or other credits.

Tax Titles and Possessions

Real property (land and buildings) is subject to lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy in insolvency laws). (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates; otherwise, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation where the lien could not be enforced because of a legal impediment. The

persons against whom real or personal property taxes are assessed are personally liable therefore (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by the sale or taking of the property as described below.

Massachusetts law permits a municipality either to sell by public sale, at which the municipality may become the purchaser, or to take real property for nonpayment of taxes thereon. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months, which may be extended an additional year in the case of certain installment payments, it can be foreclosed by petition to the land court. Upon such foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of like any land held for municipal purposes.

The following shows the trend in tax titles as of the end of the last five fiscal years:

<u>Fiscal Year</u>	<u>Tax Titles (1)</u>
2016	\$ 1,016,094
2015	990,780
2014	1,046,173
2013	946,664
2012	858,109

(1) The Town places all overdue property taxes into tax title before the end of the fiscal year.

Taxation to Meet Deficits

As noted elsewhere (see "Abatements and Overlay," above) overlay deficits, i.e., tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e., those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates, and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

Cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Tax Limitations

Chapter 59, Section 21C of the General Laws, also known as "Proposition 2½" imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation.

This “growth” limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the “growth” limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit “to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year”.

Proposition 2½ further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures or for the city or town’s apportioned share for certain capital outlay expenditures by a regional governmental unit. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality’s sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year’s assessments and (b) “any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option”. Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district’s governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

Unused Levy Capacity

The following table sets forth the Town's tax levy limits and unused levy capacity for the following fiscal years:

	For Fiscal Year				
	2016	2015	2014	2013	2012
Primary Levy Limit (1)	\$ 212,847,464	\$ 194,252,807	\$ 184,440,736	\$ 180,031,927	\$ 173,869,864
Prior Fiscal Year Levy Limit	98,617,161	94,987,188	91,310,473	88,442,215	79,443,949
2.5% Levy Growth	2,465,429	2,374,680	2,282,762	2,211,055	1,986,099
New Growth (2)	1,337,666	1,255,293	1,393,953	657,203	522,167
Overrides	-	-	-	-	6,490,000
Growth Levy Limit	102,420,256	98,617,161	94,987,188	91,310,473	88,442,215
Debt Exclusions	974,221	1,111,442	1,199,114	1,118,656	989,286
Other Adjustments(3)	5,593,112	5,593,112	5,593,112	5,593,112	5,593,112
Tax Levy Limit	108,987,589	105,321,715	101,779,414	98,022,241	95,024,613
Tax Levy	108,977,901	105,285,021	101,737,510	98,009,381	95,002,494
Unused Levy Capacity (4)	\$ 9,688	\$ 36,694	\$ 41,904	\$ 12,860	\$ 22,119
Unused Primary Levy Capacity (5)	\$ 110,427,208	\$ 95,635,646	\$ 89,453,548	\$ 88,721,454	\$ 85,427,649

(1) 2.5% of assessed valuation.

(2) Allowed increase for new valuations certified by the Department of Revenue.

(3) Represents water and sewer debt service as permitted pursuant to G.L. Chapter 59, Section 21C(n).

(4) Tax Levy Limit less Tax Levy.

(5) Primary Levy Limit less Growth Levy Limit.

Impact of Proposition 2 1/2

As illustrated by the table above, the Town's primary response to the fiscal constraints imposed by Proposition 2 1/2 has been to exempt a significant portion of its long-term debt from Proposition 2 1/2. In addition, on June 11, 2005, voters passed a \$6 million operating override to support ongoing funding for schools, libraries, youth services, police, fire, DPW, and other town services. Most recently the Town passed another \$6,490,000 operating override in June 2011 for fiscal years 2012 and beyond.

Sale of Tax Receivables

Legislation enacted in 1996 authorizes public sales by cities and towns of delinquent property tax receivables, individually or in bulk. The City does not expect to utilize this option at the present time.

Pledged Taxes

Taxes on the increased value of certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes. (See "Town Finances - Tax Increment Financing for Development Districts" below).

Initiative Petitions

Various proposals have been made in recent years for legislative amendments to the Massachusetts Constitution to impose limits on State and local taxes. To be adopted such amendments must be approved by two successive legislatures and then by the voters at a state election.

TOWN FINANCES

The Budget and Appropriation Process

The annual appropriations of the Town are ordinarily made at the annual town meeting, which takes place in April. Appropriations may also be voted at special meetings. Every town must have an appropriation, advisory or finance committee. The committee (or the board of selectmen if authorized by by-law) is required to submit a budget of proposed expenditures at the annual town meeting.

Water and sewer department expenditures are generally included in the budgets adopted by city councils and town meetings but electric and gas department funds may be appropriated by the municipal light boards. Under certain legislation any city or town which accepts the legislation may provide that the appropriation for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department. It is assumed that this general provision does not alter the pre-existing power of an electric or gas department to appropriate its own receipts.

The school budget is limited to the total amount appropriated by the city council or town meeting, but the school committee retains full power to allocate the funds appropriated.

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for, and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. The Town operates self-supporting enterprise funds for water and sewer, youth recreation, council on aging, transportation and the ice rink.

Operating Budget Trends

The following table sets forth the trend in the Town's operating budgets as voted at Town Meeting for fiscal years 2013 through 2017:

	2017	2016	2015	2014	2013
Local Expenditures:					
General Government	\$ 6,380,363	\$ 5,838,414	\$ 4,752,899	\$ 5,213,871	\$ 4,945,280
Public Protection	15,084,531	14,258,923	14,190,113	13,628,768	12,717,099
Education	57,001,333	53,574,114	50,729,968	47,675,113	44,642,598
Libraries	2,266,117	2,217,065	2,186,865	2,113,036	2,045,901
Insurance	16,920,564	16,359,582	15,706,431	14,739,366	15,105,214
Pensions	9,641,782	9,140,241	8,643,368	8,160,032	7,710,766
Warrant Articles	4,751,573	5,848,635	4,794,048	4,438,627	4,616,415
State Assessments	8,561,983	8,532,934	8,664,577	8,069,392	8,309,901
DPW	8,660,280	8,295,536	8,643,065	8,353,108	7,784,282
Health & Human Services	1,054,981	1,005,966	1,061,722	1,017,549	989,518
Overlay Reserve	600,000	800,000	600,000	700,000	900,000
Capital budget/debt	11,192,533	10,231,101	9,918,358	9,831,310	9,343,820
Stabilization Fund Appropriations	2,521,036	2,882,763	4,310,363	6,037,873	3,979,357
Misc.	2,615,274	2,347,228	2,330,718	1,442,699	1,560,749
Community Preservation	1,500,000	-	-	-	-
Snow & Budget Deficit	-	500,000	500,000	900,000	-
TOTAL	\$ 148,752,350	\$ 141,832,502	\$ 137,032,495	\$ 132,320,744	\$ 124,650,900

Education Reform

State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education and related programs, and may affect the level of state aid to be received for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors. Since enactment, the Town's net school spending has exceeded the minimum required local contribution.

Revenues

State Aid - In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

In the fall of 1986, both the State Legislature (by statute, repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, the remaining law could restrict the amount of state revenues available for state aid to local communities.

The following table sets forth the amount of state aid received by the Town for fiscal years 2012 through 2016 and an estimate for fiscal year 2017:

<u>Fiscal Year</u>	<u>Total Received From State</u>
2017 (est.)	\$18,828,545
2016	18,903,175
2015	17,462,884
2014	17,093,258
2013	15,040,051
2012	13,420,743

State School Building Assistance Program

Under its school building assistance program, the Commonwealth provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "MSBA") to finance and administer the school building assistance program. The MSBA has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the MSBA to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the MSBA based on the approved project cost and reimbursement rate applicable under the prior law. The MSBA has paid and is expected to continue to pay the remaining amounts of the grants for such projects either in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects, or as lump sum payments to contribute to the defeasance of such bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the MSBA based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the MSBA is required to fund the grants for such projects in the order in which they appear on the waiting list. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the MSBA in lump sum payments, thereby eliminating the need for the MSBA to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the MSBA's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the MSBA as project costs are incurred by the municipality pursuant to a project funding agreement between the MSBA and the municipality, eliminating

the need for the municipality to borrow even on a temporary basis to finance the MSBA's share of the project costs in most cases.

The maximum reimbursement rate for new project grant applications submitted to the MSBA on or after July 1, 2007 is 80% of approved project costs. The MSBA promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The MSBA expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the MSBA and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

Federal Aid: In addition to state aid, the Town receives funds from the federal government for various purposes. The following table shows federal monies received for fiscal years 2012 through 2016 and an estimate for fiscal year 2017:

<u>Fiscal Year</u>	<u>Total Received from Federal Government</u>
2017 (est.)	\$4,000,000
2016	4,239,880
2015	3,921,282
2014	3,173,738 (1)
2013	5,549,062
2012	2,233,387 (1)

(1) Does not include federal aid received for schools.

Motor Vehicle Excise Tax: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a uniform rate of \$25 per \$1,000 of valuation. The excise is collected by and for the benefit of the municipality in which the motor vehicle is kept. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 percent per annum. Provision is also made, after notice to the owner, for suspension of the owner's operating license or registration by the registrar of motor vehicles.

The following table shows actual receipts for fiscal years 2012 through 2016:

<u>Fiscal Year</u>	<u>Receipts (1)</u>
2016	\$4,952,881
2015	4,768,890
2014	4,560,626
2013	4,064,788
2012	3,936,413

(1) Net after refunds. Includes receipts for prior years.

Local Options Meals Tax

On November 16, 2009, the Town adopted the local meals excise tax to be effective January 1, 2010. The local meals excise tax is a 0.75% tax on the gross receipts of a vendor from the sale of restaurant meals. The tax is paid by the vendor to the State Commissioner of Revenue, who in turn pays the tax to the municipality in which the meal was sold.

The revenue from this tax is as follows:

<u>Fiscal Year</u>	<u>Revenues</u>
2017 (projected)	\$ 408,114
2016	409,308
2015	401,870
2014	323,258
2013	326,725
2012	307,036

Room Occupancy Tax

Under this tax, local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed six percent (6%) of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located in quarterly distributions. On November 16, 2009, the Town adopted an increase in the room occupancy tax to the maximum rate of 6% to be effective January 1, 2010. The revenue from this tax is as follows:

<u>Fiscal Year</u>	<u>Revenues</u>
2017 (projected)	\$ 331,580
2016	363,125
2015	330,739
2014	233,083
2013	285,497
2012	262,104

Community Preservation Act

The Massachusetts Community Preservation Act (the “CPA”) permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy, dedicate revenue (other than state or federal funds), and to receive state matching funds for (i) the acquisition, creation, preservation, rehabilitation and restoration of land for recreational use, open space, and affordable housing and (ii) the acquisition, preservation, rehabilitation and restoration of historic resources. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% (but not less than 1% under certain circumstances) and may make an additional commitment of funds by dedicating revenue other than state or federal funds, provided that the total funds collected do not exceed 3% of the real property tax levy, less any exemptions adopted (such as an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property or \$100,000 of the value of each taxable parcel of class three, commercial property, and class four, industrial property as defined in Chapter 59, Section 2A of the General Laws, and an exemption for commercial and industrial properties in cities and towns with classified tax rates). In the event that the municipality shall no longer dedicate all or part of the additional funds to community preservation, the surcharge on the real property tax levy of not less than 1% shall remain in effect, provided that any such change must be approved pursuant to the same process as acceptance of the CPA. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see “Tax Limitations” under “PROPERTY TAXATION” above). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, including reducing the surcharge to 1% and committing additional municipal funds as outlined above, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge and dedication of revenue. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula and the total state distribution made to any city or town may not exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on taxes, the dedication of revenue and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the

fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge and dedicated revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

The Town has adopted a 1.5% CPA surcharge which commenced in fiscal 2016. The Town levied \$1,324,404 for CPA in fiscal 2016 and received \$247,000 in state matching grants. The CPA Trust Fund balance as of June 30, 2016 was \$1,308,889.

Annual Audits

The accounts of the Town of Arlington are audited annually by Powers & Sullivan, Certified Public Accountants, of Wakefield, Massachusetts. For a summary of "Significant Accounting Policies," please refer to the audit for fiscal year ending June 30, 2015, which is attached hereto as Appendix A.

The attached report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, not have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set forth in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Financial Statements

Set forth on the following pages are Governmental Funds Balance Sheets for fiscal years ended June 30, 2015, June 30, 2014 and June 30, 2013, a Statement of Revenues and Expenditures (Governmental Funds) for fiscal years ended June 30, 2015 and a Comparative Statement of Revenues and Expenditures (Governmental Funds) for fiscal years ended June 30, 2009 through June 30, 2014, as extracted from the audited financial statements for those years.

**TOWN OF ARLINGTON, MASSACHUSETTS
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2015 (1)**

	General	Capital Borrowing Funds	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 47,519,414	\$ 6,417,212	\$ 12,821,976	\$ 66,758,602
Investments	-	-	12,672,008	12,672,008
Receivables, Net of Uncollectibles:				
Real Estate and Personal Property Taxes	10,229	-	-	10,229
Real Estate Tax Deferrals	350,428	-	-	350,428
Tax Liens	990,780	-	-	990,780
Motor Vehicle Excise Taxes	224,272	-	-	224,272
Departmental and Other	482,802	-	-	482,802
Intergovernmental	7,762,421	-	1,843,367	9,605,788
Loans	-	-	687,951	687,951
Tax Foreclosures	396,784	-	-	396,784
TOTAL ASSETS	\$ 57,737,130	\$ 6,417,212	\$ 28,025,302	\$ 92,179,644
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants Payable	696,630	1,381,155	196,520	2,274,305
Accrued Payroll	3,970,191	-	89,176	4,059,367
Tax Refunds Payable	440,000	-	-	440,000
Liabilities due depositors	95,198	-	-	95,198
Payroll withholdings	646,504	-	-	646,504
Abandoned property	44,045	-	-	44,045
TOTAL LIABILITIES	5,892,568	1,381,155	285,696	7,559,419
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenues	10,217,716	-	2,347,753	12,565,469
Taxes paid in Advance	93,740	-	-	93,740
TOTAL DEFERRED INFLOWS OF RESOURCES	10,311,456	-	2,347,753	12,659,209
FUND BALANCES:				
Nonspendable	-	-	5,215,587	5,215,587
Restricted	3,860,841	5,036,057	20,176,266	29,073,164
Committed	946,837	-	-	-
Assigned	7,058,067	-	-	7,058,067
Unassigned	29,667,361	-	-	29,667,361
TOTAL FUND BALANCES	41,533,106	5,036,057	25,391,853	71,961,016
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 57,737,130	\$ 6,417,212	\$ 28,025,302	\$ 92,179,644

(1) Extracted from audited financial statements of the Town.

TOWN OF ARLINGTON, MASSACHUSETTS
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2014 (1)

	General	Capital Borrowing Funds	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 AND FUND BALANCES				
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 Revenues	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	-	-	-
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

(1) Extracted from audited financial statements of the Town.

TOWN OF ARLINGTON, MASSACHUSETTS
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2013 (1)

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

(1) Extracted from audited financial statements of the Town.

TOWN OF ARLINGTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS- YEAR ENDED JUNE 30, 2015 (1)

	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Real Estate and Personal Property Taxes, Net of Tax Refunds	\$ 104,356,047	\$ -	\$ 292	\$ 79,978,351
Tax Liens	574,342	-	-	244,944
Motor Vehicle Excise Taxes	4,668,133	-	-	3,775,636
Hotel/Motel Tax	330,739	-	-	136,490
Meals Tax	401,870	-	-	
Fees and Rentals	-	-	150,377	
Intergovernmental	25,856,129	84,847	8,524,117	28,233,487
Departmental and Other	4,437,506	-	9,899,145	4,058,417
Contributions	5,325	-	801,568	-
Investment Income	148,715	42	793,481	381,500
TOTAL REVENUES	\$ 140,778,806	\$ 84,889	\$ 20,168,980	\$ 116,808,825
EXPENDITURES				
Current:				
General Government	4,382,354	336,129	1,724,547	4,370,194
Public Safety	14,931,323	6,311,101	1,986,536	12,863,775
Education	54,577,944	1,016,447	10,584,619	40,251,327
Public Works	10,331,426	1,380,351	2,210,102	7,515,014
Community Development	702,159	11,867	2,225,496	650,915
Human Services	1,084,361	480	587,510	719,847
Library	2,087,496	132,150	217,235	1,916,800
Culture and Recreation	4,206	544,073	861,059	-
Pension Benefits	14,048,794	-	-	17,250,470
Property and Liability Insurance	309,399	-	-	
Employee Benefits	15,765,665	-	75,000	18,508,283
State and County Charges	3,077,899	-	-	2,645,607
Debt Service:				
Principal	6,731,000	-	545,000	5,502,000
Interest	1,532,702	-	132,750	1,914,462
TOTAL EXPENDITURES	129,566,728	9,732,598	21,149,854	114,108,694
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 11,212,078	\$ (9,647,709)	\$ (980,874)	\$ 2,700,131
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds	-	11,018,000	-	11,018,000
Premium from issuance of bonds	910,686	-	-	910,686
Sal of Capital Assets	-	-	65,000	
Transfers in	2,115,933	109,995	2,809,989	5,035,917
Transfers out	(8,423,594)	(41,062)	(2,407,815)	(10,872,471)
TOTAL OTHER FINANCING SOURCES (USES)	(5,396,975)	11,086,933	467,174	6,092,132
Net Change in Fund Balances	5,815,103	1,439,224	(513,700)	6,740,627
Fund Balances at Beginning of Year	35,718,003	3,596,833	25,905,553	65,220,389
Fund Balances at End of Year	\$ 41,533,106	\$ 5,036,057	\$ 25,391,853	\$ 71,961,016

(1) Extracted from audited financial statements of the Town.

TOWN OF ARLINGTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS- YEAR ENDED JUNE 30, 2014 (1)

	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Real Estate and Personal Property Taxes, Net of Tax Refunds	\$ 100,601,880	\$ -	\$ -	\$ 79,978,351
Tax Liens	355,573	-	-	244,944
Motor Vehicle Excise Taxes	4,560,606	-	-	3,775,636
Hotel/Motel Tax	300,875	-	-	136,490
Meals Tax	413,163	-	-	
Fees and Rentals	-	-	57,259	
Lisences and Permits	-	-	-	
Intergovernmental	32,719,516	1,058,974	9,845,411	28,233,487
Departmental and Other	4,751,928	-	10,344,350	4,058,417
Contributions	52,098	-	394,252	-
Investment Income	124,840	40	1,999,491	381,500
TOTAL REVENUES	\$ 143,880,479	\$ 1,059,014	\$ 22,640,763	\$ 116,808,825
EXPENDITURES				
Current:				
General Government	4,431,538	259,452	1,121,709	4,370,194
Public Safety	13,778,482	1,239,675	2,124,233	12,863,775
Education	51,356,068	3,050,940	9,497,172	40,251,327
Public Works	9,293,247	1,019,175	2,224,778	7,515,014
Community Development	669,896	17,956	2,969,971	650,915
Human Services	919,575	525	574,467	719,847
Library	2,036,487	443,864	253,257	1,916,800
Culture and Recreation	11,806	598,122	703,431	-
Pension Benefits	20,752,031	-	-	17,250,470
Property and Liability Insurance	292,555	-	-	
Employee Benefits	14,749,534	-	324,750	18,508,283
State and County Charges	3,009,401	-	-	2,645,607
Debt Service:				
Principal	6,867,000	-	390,000	5,502,000
Interest	1,550,494	-	145,675	1,914,462
TOTAL EXPENDITURES	129,718,114	6,629,709	20,329,443	114,108,694
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 14,162,365	\$ (5,570,695)	\$ 2,311,320	\$ 2,700,131
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

(1) Extracted from audited financial statements of the Town.

TOWN OF ARLINGTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (1)

	Actual				
	2009	2010	2011	2012	2013
REVENUES					
Real Estate and Personal Property Taxes, Net of Tax Refunds	\$ 79,978,351	\$ 82,576,221	\$ 85,056,101	\$ 94,115,885	\$ 96,994,617
Tax Liens	244,944	375,618	299,848	251,050	384,619
Motor Vehicle Excise Taxes	3,775,636	3,757,148	3,898,459	3,937,078	4,066,173
Hotel/Motel Tax	136,490	165,114	240,164	262,094	610,223
Intergovernmental	28,233,487	27,525,231	28,779,186	30,066,650	29,531,913
Departmental and Other	4,058,417	4,245,973	4,405,844	5,501,972	4,873,336
Contributions	-	-	-	-	58,854
Investment Income	381,500	484,802	77,203	96,854	115,293
TOTAL REVENUES	\$ 116,808,825	\$ 119,130,107	\$ 122,756,805	\$ 134,231,583	\$ 136,635,028
EXPENDITURES					
Current:					
General Government	4,370,194	3,631,160	3,948,332	3,985,557	4,053,835
Public Safety	12,863,775	13,039,593	12,626,775	13,128,836	14,306,801
Education	40,251,327	40,984,304	39,251,542	43,765,046	49,458,040
Public Works	7,515,014	8,896,205	8,722,307	8,267,518	9,528,884
Property and Liability Insurance	1,308,218	264,569	246,375	258,592	261,950
Community Development	650,915	670,923	551,128	510,083	644,505
Human Services	719,847	788,281	775,381	838,241	867,213
Library	1,916,800	1,889,720	1,858,974	1,996,880	1,974,034
Culture and Recreation	-	14,531	12,920	13,268	15,296
Pension Benefits	17,250,470	17,841,371	18,873,410	19,646,204	20,234,148
Employee Benefits	18,508,283	16,892,684	16,183,767	13,573,190	14,350,345
Claims and judgments	25,000	25,000	-	-	-
State and County Charges	2,645,607	2,671,798	2,725,122	2,762,765	3,060,174
Debt Service:					
Principal	5,502,000	5,810,000	5,832,000	6,184,155	6,202,000
Interest	1,914,462	1,893,250	1,860,829	1,596,255	1,578,267
TOTAL EXPENDITURES	115,441,912	115,313,389	113,468,862	116,526,590	126,535,492
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 1,366,913	\$ 3,816,718	\$ 9,287,943	\$ 17,704,993	\$ 10,099,536
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes	-	-	-	-	-
Proceeds from refunding bonds	-	-	-	6,311,000	2,205,000
Premium from issuance of bonds	-	225,869	-	-	-
Premium from issuance of refunding bonds	-	-	-	476,376	198,118
Payments to refunded bond escrow agent	-	-	-	(6,705,093)	(2,330,150)
Transfers in	1,088,660	3,792,044	590,928	492,965	415,507
Transfers out	(7,469,671)	(6,787,628)	(6,873,515)	(7,522,362)	(8,243,082)
TOTAL OTHER FINANCING SOURCES (USES)	(6,381,011)	(2,769,715)	(6,282,587)	(6,947,114)	(7,754,607)
Net Change in Fund Balances	(5,014,098) (2)	1,047,003	3,005,356	10,757,879	2,344,929
Fund Balances at Beginning of Year	10,282,380	5,268,282	12,331,099 (3)	15,336,455	26,094,334
Fund Balances at End of Year	\$ 5,268,282	\$ 6,315,285 (3)	\$ 15,336,455	\$ 26,094,334	\$ 28,439,263

(1) Extracted from audited financial statements of the Town.

(2) Includes the reclassification of \$2,594,771 of Other Post Employment Fund Balance from the General Fund into the Nonmajor Governmental Funds.

(3) Difference between fund balance at the end of the fiscal year and the fund balance at the beginning of the fiscal year is attributable to new GASB accounting reporting requirements.

Unassigned General Fund Balances and Free Cash

Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts, and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years. The Town Accountant may certify as available for appropriation an adjusted free cash figure by adding back those uncollected and overdue property taxes which are subsequently collected between July 1 and the following March 31 of any year.

The following table sets forth the trend in the Town's unassigned general fund balances and free cash:

<u>Year</u>	<u>Unassigned General Fund Balance for Fiscal Year Ending June 30 (1)</u>	<u>Certified Free Cash for Fiscal Year Beginning July 1</u>
2015	\$29,667,361 (3)	\$8,000,000 (2)
2014	26,292,774 (3)	6,871,692
2013	17,915,224 (3)	6,085,848
2012	16,808,113 (3)	7,793,055
2011	9,076,608 (3)	4,378,542

(1) Source: Audited Financial Statements.

(2) Estimated. Town expects fiscal 2015 free cash to be similar to fiscal 2014 which was largely driven by departmental turnbacks, a surplus in the health insurance budget, significant increase in local receipts collections and receipts of Chapter 90 reimbursements that were not received in prior fiscal year.

(3) Unassigned General Fund Balance. Increase attributable to new GASB accounting reporting requirements.

Stabilization Fund

The Town has maintained a Stabilization Fund for several years. Under Massachusetts statutes, funds may be appropriated from the Fund by a two-thirds vote of town meeting for any municipal purpose.

The following sets forth the trend in the Stabilization Fund:

<u>As of June 30</u>	<u>Amount</u>
2016	\$2,992,020
2015	2,879,460
2014	2,773,250
2013	2,668,206
2012	2,562,471

Fiscal Stability Stabilization Fund

The Town created a Fiscal Stability Stabilization Fund pursuant to Article 75 of the 2011 Annual Town Meeting in accordance with the provisions of the General Laws, Chapter 40, Section 5B, as amended. The Fund was established to hold surplus override tax revenues for future years in which operating deficits were projected. The Fund was initially expected to be drawn down over five fiscal years.

The following sets for the trend in the Fiscal Stability Stabilization Fund:

<u>As of June 30</u>	<u>Amount</u>
2016	\$21,850,650
2015	18,000,920
2014	13,685,484
2013	7,888,722
2012	3,993,618

Retiree Health Insurance Trust Fund

The Town maintains a Healthcare Trust Fund pursuant to Chapter 12 of the Acts of 1988 to meet the Town's unfunded liability for retiree health insurance. The Town utilizes the annual decrease in the non-contributory pension fund appropriation to add to the Fund. The Town appropriates to the Fund the difference between \$500,000 and the next year's non-contributory pension appropriation. See "THE ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM-Other Post Employment Benefits" below.

The following sets for the trend in the Retiree Health Insurance Trust Fund:

<u>As of June 30</u>	<u>Amount</u>
2016	\$9,184,192
2015	8,377,656
2014	7,427,776
2013	5,569,643
2012	4,484,969

Building Insurance Trust Fund

The Town maintains a Building Insurance Trust pursuant to Section 13 of Chapter 40 of the Massachusetts General Laws to cover insurance deductibles in the event of fire or other damage to Town owned buildings. The Town's deductible is \$100,000 per building. The balance in the fund at June 30, 2009 was \$613,717, the balance in the fund at June 30, 2010 was \$963,451, the balance in the fund at June 30, 2011 was \$925,082, the balance in the fund at June 30, 2012 was \$835,406 and the balance in the fund at June 30, 2013 was \$816,559. The balance at June 30, 2014 was \$771,307. The balance at June 30, 2015 was \$752,491. The balance as of June 30, 2016 was \$734,957.

Tip Fee Stabilization Fund

In accordance with Chapter 8 of the Acts of 1998 the Town maintains a "Tip Fee" stabilization fund to receive all proceeds from the sale of recycled materials, the sale of excess tonnage capacity of the Town at the Massachusetts Refusetech, Inc. ('MRI') facility in North Andover, including the balance of such funds previously received, other receipts arising from the sale of disposal of solid waste, and any funds appropriated by the Town Meeting for the purpose of this fund. With the ending of the original 20 year contract with MRI, this fund may now be used for any municipal purpose. The fund balance as of June 30, 2009 was \$2,559,441, the fund balance as of June 30, 2010 was \$1,888,492, the fund balance as of June 30, 2011 was \$562,091, the fund balance as of June 30, 2012 was \$563,769 and the balance as of June 30, 2013 was \$164,261. The balance at June 30, 2014, June 30, 2015 and June 30, 2016 was \$0.

Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2½ (see "Tax Limitations" under "PROPERTY TAXATION" above).

The Town has not established any such development districts.

Investment of Town Funds

Investments of funds of cities and towns, except for trust funds, are generally restricted by Massachusetts General Laws Chapter 44, section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposits of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, or in participation units in the Massachusetts Municipal Depository Trust ("MMDT") or in shares in SEC-Registered money market funds with the highest possible rating from at least one nationally recognized statistical rating organization.

MMDT is an investment pool created by the Commonwealth. The State Treasurer is the sole trustee, and the funds are managed under contract by an investment firm under the supervision of the State Treasurer's office. According to the State Treasurer the MMDT's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities with maturities of one year or less.

MMDT funds, unless otherwise provided by the donor, may be invested in accordance with Section 54 of Chapter 44, which permits a broader range of investments than Section 55, including any securities that are legal investments for savings banks in the Commonwealth. The restrictions imposed by Sections 54 and 55 do not apply to city and town retirement systems.

Capital Planning

The Capital Planning Committee was established by the 1986 Arlington Town Meeting to assist the Town Manager in preparing a long-range capital improvement plan. The Committee consists of the Town Manager, Superintendent of Schools, Treasurer, Comptroller (or their designees), a representative of the Finance Committee and four registered voters of the Town appointed by the Moderator.

Town Meeting in recent years has approved road improvements, improvements to public facilities for compliance with the Americans with Disabilities Act, renovations of several parks and playgrounds, continuous improvements and upgrades to data processing equipment and technology, replacement of critical police and fire equipment and other capital projects that are important to the Town's service delivery and future growth.

INDEBTEDNESS

Authorization of General Obligation Bonds and Notes

Serial bonds and notes are authorized by a two-thirds vote of the town meeting. Provision is made for a referendum on the borrowing authorization if there is a timely filing of a petition bearing the requisite number of signatures. Borrowings for some purposes require State administrative approval.

When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue serial bonds or notes. Revenue anticipation notes and temporary notes in anticipation of authorized federal and state aid generally may be issued by the Treasurer with the approval of the Selectmen.

Debt Limits

General Debt Limit. The General Debt Limit of the Town consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit of the Town is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The Town can authorize debt up to this amount without state approval. It can authorize debt up to twice this amount (the Double Debt Limit) with the approval of the State Municipal Finance Oversight Board consisting of the Attorney General, the State Treasurer, the State Auditor, and the Director of Accounts (the "MFOB").

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes, emergency loans, loans exempted by special laws, certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and, subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Revenue Anticipation Notes. The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year ends on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year, to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years. (See "Taxation to Meet Deficits" under "PROPERTY TAXATION" above.) In any event, the period from an original borrowing to its final maturity cannot exceed one year.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue. Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as “qualified bonds” with the approval of the MFOB, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service paid by the State from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Tax Credit Bonds or Notes. Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as “tax credit bonds” to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue. The Town has not borrowed in anticipation of revenue since the implementation of quarterly billing for real estate taxes, which began July 1, 1991.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. Generally, they must mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth’s Clean Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy.

**Direct Debt Summary
As of June 30, 2016 (1)
Including Subsequent Issues**

General Obligation Bonds:

Within the General Debt Limit (2)

Sewers & Drains	\$ 2,633,816	
Schools	8,925,690	
Departmental Equipment	2,303,000	
Other General	<u>24,215,310</u>	
Total within the debt limit		\$ 38,077,816

Outside the General Debt Limit

Sewers & Drains	250,000	
School (3)	10,270,000	
Water	4,455,100	
General	<u>5,053,000</u>	
Total outside the debt limit		<u>\$ 20,028,100</u>

Total Long Term Debt \$ 58,105,916

This Issue of Bonds to be dated November 9, 2016

25,660,000

Short Term Indebtedness

Bond Anticipation Notes (4) \$ 15,232,000

Less:

To be retired with Bond Proceeds (15,232,000)

Total Short Term Debt after This Issue

-

Total Direct Debt after This Issue

\$ 83,765,916

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt, unfunded pension liability and other post employment benefits liabilities.

(2) Based on the Town's equalized valuation of \$7,913,085,100 effective as of January 1, 2014, its Normal General Debt Limit is \$395,654,255 and its Double General Debt Limit is \$791,308,510. (See "INDEBTEDNESS – Debt Limits," above.)

(3) The unpaid balance of state school construction grants as of June 30, 2015 was approximately \$5,470,601. Said grants are payable in equal annual installments over the life of the school bonds.

(4) Payable November 10, 2016.

Key Debt Ratios

The following table sets forth the ratio of debt to assessed and equalized valuation and per capita debt ratios at the end of the last five fiscal years. The table considers the principal amount of general obligation bonds of the Town of Arlington only. The table does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in whole or in part by non-tax revenues.

	As of June 30,					
	2016 (5)	2015	2014	2013	2012	2011
Amount (1)	\$58,105,916	\$62,937,232	\$58,406,772	\$59,564,350	\$53,374,645	\$56,122,014
Per Capita (2)	\$1,356.22	\$1,468.99	\$1,363.24	\$1,390.26	\$1,245.79	\$1,309.92
Percent of Assessed Valuation (3)	0.68%	0.81%	0.79%	0.83%	0.77%	0.81%
Percent of Equalized Valuation (4)	0.73%	0.80%	0.78%	0.79%	0.74%	0.78%
Per Capita as a percent of						
Personal Income Per Capita (2)	2.85%	3.09%	2.87%	2.92%	2.62%	2.75%

(1) Outstanding principal on general obligation bonds. Excludes lease and installment purchase obligations, overlapping debt, bond anticipation notes, unfunded pension liability and other post employment benefits liability.

(2) Source: U.S. Department of Commerce, Bureau of the Census - Latest applicable actuals or estimates.

(3) Source: Board of Assessors - Assessed valuation as of the prior January 1.

(4) Source: State Department of Revenue. The equalized valuation used here is the equalized valuation in effect for that year.

Annual Debt Service as of June 30, 2016 (1)

Fiscal Year	Outstanding (2)		School Construction Aid	Net Debt Service	Percent Principal Retired
	Principal	Interest			
2017	\$ 9,432,716	\$ 1,841,969	\$ (2,474,773)	\$ 8,799,912	16.2 %
2018	7,985,300	1,422,544	(2,474,773)	6,933,071	30.0
2019	6,386,100	1,174,019	(521,055)	7,039,064	41.0
2020	5,655,600	970,600	-	6,626,200	50.7
2021	4,840,600	792,538	-	5,633,138	59.0
2022	3,780,600	645,875	-	4,426,475	65.5
2023	2,860,000	533,094	-	3,393,094	70.5
2024	2,570,000	447,175	-	3,017,175	74.9
2025	2,135,000	379,269	-	2,514,269	78.6
2026	1,945,000	323,228	-	2,268,228	81.9
2027	1,585,000	278,288	-	1,863,288	84.6
2028	1,580,000	238,241	-	1,818,241	87.4
2029	1,530,000	196,384	-	1,726,384	90.0
2030	1,425,000	154,113	-	1,579,113	92.4
2031	1,405,000	112,194	-	1,517,194	94.9
2032	1,035,000	75,903	-	1,110,903	96.6
2033	1,035,000	44,963	-	1,079,963	98.4
2034	570,000	19,856	-	589,856	99.4
2035	350,000	5,250	-	355,250	100.0
Total	<u>\$ 58,105,916</u>	<u>\$ 9,655,503</u>	<u>\$ (5,470,601)</u>	<u>\$ 62,290,818</u>	

(1) Excludes revenue anticipation notes, grant anticipation notes, bond anticipation notes, lease and installment purchase obligations, overlapping debt, unfunded pension liability and other post employment benefits liability.

(2) Principal totaling \$16,386,225 and interest totaling \$2,454,715 is exempt from Proposition 2 ½.

Authorized Unissued Debt and Prospective Financing

Following the delivery of this issue, the Town will have approximately \$5.7 million of authorized unissued debt for various capital projects including a school (\$1.2 million), water (\$3.1 million), sewer (\$1.4 million) and various other capital improvement projects.

Overlapping Debt

The Town is a member of the MBTA and the MWRA, and is one of 16 members of the Minuteman Regional Vocational-Technical School District. The following table sets forth the outstanding bonded debt, exclusive of temporary loans in anticipation of bonds or current revenue, of the MBTA, the MWRA and the School District, the Town 's share of such debt and the fiscal 2017 dollar assessment for each:

	Outstanding Debt as of June 30, 2016	Authorized Unissued	Arlington's Estimated Share	Dollar Assessment Fiscal 2017 (1)
MBTA (2)	\$ 5,656,191,000	(2)	1.742%	\$ 2,856,619
MWRA (3)				
Water	2,084,311,000	(3)	2.087%	2,017,375
Sewer	3,690,804,000		1.874%	2,220,284
Minuteman Reg. Voc. Tech School District (4)	-		-	3,788,615

- (1) Dollar assessment is based upon total net operating expenses, inclusive of debt service where applicable.
- (2) Source: MBTA. The MBTA was created in 1964 to finance and operate mass transportation facilities within the greater Boston metropolitan area. Under its enabling act, the MBTA is authorized to issue bonds for capital purposes, other than refunding bonds, and for certain specified purposes to an outstanding amount, which does not exceed the aggregate principal amount of \$3,556,300,000. In addition, pursuant to certain of the Commonwealth's transportation bond bills, the MBTA is authorized to issue additional bonds for particular capital purposes. The MBTA also is authorized to issue bonds of the purpose of refunding bonds. Under the MBTA's enabling act debt service, as well as other operating expenses of the MBTA, are to be financed by a dedicated revenue stream consisting of the amounts assessed on the cities and towns of the MBTA and a dedicated portion of the statewide sales tax. The amount assessed to each city and town is based on its weighted percentage of the total population of the authority as provided in the enabling act. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year.
- (3) Source: MWRA. The MWRA provides wholesale drinking water services in whole or in part to 48 cities, towns and special purpose entities and provides wastewater collection and treatment services to 43 cities, towns and special purpose entities. Under its enabling legislation, as amended, the MWRA may borrow up to \$6.1 billion outstanding at any time for its corporate purposes. Its obligations are secured by revenues of the MWRA. The MWRA assesses member cities, towns and special purpose entities, which continue to provide direct retail water and sewer services to users. The cities, towns and other entities collect fees from the users to pay all or part of the assessments; some municipalities levy property taxes to pay part of the amounts assessed upon them.
- (4) Source: Business Manager, Minuteman Regional Vocational-Technical School District. Fiscal 2014 dollar assessment. Arlington is a member along with the Towns of Acton, Belmont, Bolton, Boxborough, Carlisle, Concord, Dover, Lancaster, Lexington, Lincoln, Needham, Stow, Sudbury, Wayland and Weston. The operating expenses and debt service of regional school districts are apportioned among the member municipalities in accordance with the agreements establishing the districts, subject to the provisions of the Education Reform Act of 1993. The District recently approved \$144.9 million for a new high school, of which approximately 44.75% is expected to be paid in grants from the Massachusetts School Building Authority.

Contracts

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Municipal contracts relating to solid waste disposal facilities may contain provisions requiring the delivery of minimum amounts of waste and payments based thereon and requiring payments in certain circumstances without regard to the operational status of the facilities.

Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facilities.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town has a five year contract with Wheelabrator Inc. of North Andover for the disposal of solid waste. The contract expires June 30, 2020 and calls for the payment of \$54.58 per ton of solid waste for the period of July 1, 2016 through June 30, 2017.

As of July 1, 2012, the Town entered into a ten year contract with JRM Hauling and Recycling which will expire on June 30, 2022. The Town appropriated \$3,410,048 for this purpose is fiscal 2016. The following table presents the actual cost to the Town for solid waste disposal and collection for fiscal years 2012 through 2016:

<u>Fiscal Year</u>	<u>Disposal</u>	<u>Collection</u>
2016	\$1,160,756	\$2,122,897
2015	1,245,540	2,242,480
2014	926,000	2,236,860
2013	918,000	2,193,000
2012	1,050,000	2,160,000

Except for the above and for the transportation of students to school, which contracts are from one to three years in length, the Town has not entered into any long-term contracts of a substantial nature.

THE ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. The funding schedule must provide that payment

in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule. Pursuant to recent legislation, a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked.

The Town contributes to the Arlington Contributory Retirement System (the "System"), a cost-sharing, multiple-employer retirement system administered by the Arlington Contributory Retirement Board (the "Board"). Substantially all employees are members of the System except for public school teachers and certain administrators who are members of the Commonwealth of Massachusetts Teachers Contributory Retirement System to which the Town does not contribute. The System provides retirement, disability and death benefits to plan members and beneficiaries. The Town also provides non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents.

The annual appropriations of the Town to the System and non-contributory pensions for the last five fiscal years and the amount budgeted for the current fiscal year are as follows:

<u>Fiscal Year</u>	<u>System</u>	<u>Non-Contributory</u>	<u>Total</u>
2017 (budgeted)	\$10,659,672	\$87,000	\$10,746,672
2016	10,098,704	85,240	10,183,944
2015	9,571,203	85,240	9,656,443
2014	9,008,899	107,123	9,116,022
2013	8,504,185	107,123	8,611,308
2012	8,067,526	110,572	8,178,098

Source: Town Accountant.

Chapter 697 of the Acts of 1987, which was enacted on January 12, 1988, provides various benefit improvements, which may be accepted by local option. On June 12, 1990 the Town voted to accept the Chapter 697 benefit improvements, the most significant of which removed the \$30,000 cap on the amount of compensation that may be considered in the calculation of pension benefits for members hired after 1978. Members hired after 1978 are now required to contribute an additional 2% of their compensation in excess of \$30,000 to help pay for the improved benefit.

In 1998, the Town of Arlington Town Meeting and the Town of Arlington Retirement Board accepted Chapter 17 of the Acts of 1997 that provides the Retirement Board with the authority to grant cost-of-living adjustments ("COLA") each year of up to the lesser of 3% or the CPI on the first \$12,000 of retirement benefits. In addition, the Board adopted a new 20-year funding schedule, which has been approved by the PERAC. The funding schedule incorporates the assumption that an annual 3% COLA is granted. Therefore, if no COLA or less than a 3% COLA is granted in any year, it will result in an actuarial gain and reduce the appropriation level. This schedule is expected to result in the System becoming fully funded as of fiscal 2033 with an assumed 7.50% rate of return. See Appendix A for further information relating to the System.

Funding Schedule (As of January 1, 2015)

ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM

FUNDING SCHEDULE

Fiscal Year	Normal Cost	Unfunded Liability*	Funding Amortization of UAAL	Net 3(8)(c) Payments+	Schedule Contribution**	% Change
2017	2,402,559	131,926,797	8,717,758	(33,988)	11,086,329	5.50%
2018	2,510,674	129,220,519	9,322,113	(136,710)	11,696,077	5.50%
2019	2,623,654	126,961,892	9,852,417	(136,710)	12,339,361	5.50%
2020	2,741,719	125,893,765	10,413,017	(136,710)	13,018,026	5.50%
2021	2,865,096	124,141,804	11,005,631	(136,710)	13,734,018	5.50%
2022	2,994,026	121,621,386	11,632,073	(136,710)	14,489,389	5.50%
2023	3,128,757	118,238,512	12,294,258	(136,710)	15,286,305	5.50%
2024	3,269,551	113,890,072	12,994,211	(136,710)	16,127,052	5.50%
2025	3,416,681	108,463,051	13,734,069	(136,710)	17,014,039	5.50%
2026	3,570,431	101,833,656	14,516,090	(136,710)	17,949,812	5.50%
2027	3,731,101	93,866,383	15,342,661	(136,710)	18,937,051	5.50%
2028	3,899,000	84,413,001	16,216,299	(136,710)	19,978,589	5.50%
2029	4,074,455	73,311,455	17,139,666	(136,710)	21,077,412	5.50%
2030	4,257,806	60,384,673	18,115,574	(136,710)	22,236,669	5.50%
2031	4,449,407	45,439,282	19,146,989	(136,710)	23,459,686	5.50%
2032	4,649,630	28,264,215	20,237,048	(136,710)	24,749,969	5.50%
2033	4,858,864	8,629,204	8,629,204	(136,710)	13,351,357	-46.06%
2034	5,077,512	-	-	(136,710)	4,940,802	-62.99%

Source: January 1, 2015 Actuarial Valuation Report of the Arlington Retirement System, PERAC.

Schedule of Funding Progress

As indicated in the table below, as of January 1, 2015, the date of the latest actuarial valuation, the System's funded ratio was 51 percent:

SCHEDULES OF FUNDING PROGRESS

(Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability B	Unfunded AAL (UAAL) B-A	Funded Ratio A/B	Covered Payroll C	UAAL as a % of Covered Payroll (B-A)/C
1/1/2015	\$130,162	\$255,494	\$125,332	51%	\$33,534	374%
1/1/2014	\$123,495	\$250,412	\$126,917	49%	\$31,804	399%
1/1/2013	\$116,431	\$236,967	\$120,536	49%	\$30,010	402%
1/1/2012	\$111,307	\$229,785	\$118,478	48%	\$28,611	414%
1/1/2011	\$121,403	\$222,496	\$101,093	55%	\$28,637	353%

The foregoing data do not include the retirement system costs or liabilities of any larger entity, such as the county, of which the Town is a constituent part and for which the Town is assessed a share of expenses.

Other Post-Employment Benefits

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis.

The Governmental Accounting Standards Board ("GASB") Statement Nos. 43 and 45, require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These accounting standards do not require pre-funding the payment of these costs as the liability for such costs accrues, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if the cost of such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. In addition, cities and towns may establish a trust fund for the purpose of pre-funding other post-employment benefits liability in the same manner as traditional pension benefits.

The Town's last actuarial valuation report was completed as of January 1, 2014, and at that time the Unfunded Actuarial Accrued Liability was approximately \$126,917,076 (assuming a 7.50% discount rate) and the Annual Required Contribution was \$10,508,369 for fiscal 2016. On May 23, 2005 the Town established an Irrevocable OPEB Trust Fund. The balance of this fund as of June 30, 2016 was \$9,148,192.

See Appendix A for further information relating to the Town's other post-employment benefits liabilities. The current OPEB Actuarial Report for OPEB is as of January 2014. An updated valuation is currently in process and is expected to be complete by the end of calendar year 2016.

COLLECTIVE BARGAINING

City and town employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively by representatives of their choice on questions of wages, hours and other terms and conditions of employment.

The Town has approximately 925 employees, of whom approximately 85 percent belong to unions or other collective bargaining groups as follows:

<u>Union</u>	<u>Department</u>	<u>Number of Employees</u>	<u>Contract Expires</u>
International Association of Firefighters	Fire	76	6/30/18
American Federation of State, County and Municipal Employees	Public Works/ Custodial & Maintenance	143	6/30/18
Arlington Education Association	School	430	8/31/18
Arlington Ranking Police Officers Association	Police	16	6/30/18
Arlington Patrolmen's Betterment Association	Police	48	6/30/18
Service Employees International Union	Various	31	6/30/18
Robbins Library Professional Association	Library	13	6/30/18
Arlington Administrative Assistants	School	28	6/30/19
		<u>785</u>	

LITIGATION

At present there are a number of suits pending in which the Town is a defendant. In the opinion of the Town, there is no litigation either pending or threatened which is considered likely to result, either individually or in the aggregate, in final judgments, which would materially affect the Town's financial position.

TOWN OF ARLINGTON, MASSACHUSETTS
/s/ Stephen Gilligan, Treasurer

October 26, 2016

TOWN OF ARLINGTON, MASSACHUSETTS

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

YEAR ENDED JUNE 30, 2015

TOWN OF ARLINGTON, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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100 Quannapowitt Parkway
Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

www.powersandsullivan.com

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, 2015 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2014), 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, 2015 (except for the Arlington Contributory Retirement System which is as of and for the year ended December 31, 2014), 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 February 3, 2016, 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.



February 3, 2016

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, 2015. 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 the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$27.7 million at the close of 2015.

The largest portion of the Town's net position, \$122.1 million 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, \$17.7 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$112 million. The deficit is the result of the implementation of GASB #68 which required the Town to record its net pension liability of \$119.1 million for the first time this year along with the other postemployment benefits liability of \$54.2 million. These are long term unfunded liabilities that will not require significant short term resources.

Governmental Activities

	2015	2014 (as revised/restated)
Assets:		
Current assets.....	\$ 85,975,556	\$ 80,638,836
Noncurrent assets (excluding capital).....	6,204,088	8,655,461
Capital assets.....	147,526,062	142,008,196
Total assets.....	239,705,706	231,302,493
Deferred Outflows of Resources.....	61,770	99,266
Liabilities:		
Current liabilities (excluding debt).....	11,533,018	10,276,587
Noncurrent liabilities (excluding debt).....	167,681,845	158,465,653
Current debt.....	8,164,434	7,913,295
Noncurrent debt.....	47,296,114	43,531,862
Total liabilities.....	234,675,411	220,187,397
Deferred Inflows of Resources.....	93,740	1,782,621
Net Position:		
Net investment in capital assets.....	104,863,992	104,460,350
Restricted.....	17,656,840	16,661,963
Unrestricted.....	(117,522,507)	(111,690,572)
Total net position.....	\$ 4,998,325	\$ 9,431,741

The governmental activities net position decreased by \$4.4 million during the current year. Key decreases are the recognition of an additional \$8.4 million in the Town's other postemployment benefit obligation, reported in noncurrent liabilities, and an \$868,000 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. Offsetting these was \$2.4 million received from the MSBA for completed projects and \$4.3 million the Town raised to be transferred to the fiscal stability and long-term stabilization funds.

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

The net \$5.5 million increase in capital assets is mainly from central fire station renovations and street improvements.

Governmental Activities

	2015	2014 (as revised/restated)
Program revenues:		
Charges for services.....	\$ 12,076,378	\$ 11,695,114
Operating grants and contributions.....	26,792,498	34,748,457
Capital grants and contributions.....	336,181	2,633,477
General revenues:		
Real estate and personal property taxes.....	104,296,793	100,765,625
Tax liens.....	609,501	220,270
Motor vehicle excise taxes.....	4,668,133	4,560,606
Hotel/motel tax.....	330,739	300,875
Meals tax.....	401,870	413,163
Penalties and interest on taxes.....	420,679	294,295
Nonrestricted grants and contributions.....	7,133,944	7,502,207
Unrestricted investment income.....	940,814	2,122,915
Gain on sale of capital assets.....	65,000	-
Miscellaneous revenues.....	24,750	77,981
Total revenues.....	158,097,280	165,334,985
Expenses:		
General government.....	11,994,175	11,362,970
Public safety.....	26,530,179	25,960,607
Education.....	92,752,859	95,698,115
Public works.....	13,783,618	13,073,357
Community and economic development.....	3,235,477	3,658,595
Human services.....	2,112,859	1,880,010
Library.....	3,655,453	3,605,979
Culture and recreation.....	1,085,309	926,550
Interest.....	1,544,213	1,231,900
Total expenses.....	156,694,142	157,398,083
Transfers.....	(5,836,554)	(5,909,465)
Change in net position.....	(4,433,416)	2,027,437
Net position, beginning of year, as revised/restated.....	9,431,741	7,404,304
Net position, end of year.....	\$ 4,998,325	\$ 9,431,741

The beginning net position of governmental activities has been revised to reflect the implementation of GASB Statements #67, #68, and #71 and restated to reclass the OPEB liability. To reflect this change, the Town has recorded a net pension liability and a deferred outflow of resources, which has resulted in the revision of the June 30, 2014, balance of the governmental activities by \$111,279,438. The Town restated other postemployment benefit obligations between governmental and business type activities by \$516,317. Previously reported net position of \$121,227,496 has been revised/restated to \$9,431,741.

The decrease in operating grants is related to the Massachusetts Teachers Retirement System's implementation of GASB #67, #68 and #71 which decreased the revenue and corresponding expense by \$7.2 million.

The decrease in capital grants is primarily related to MSBA reimbursements for a percentage of the construction costs on the Thompson school project which concluded in 2014. There was also a decrease in revenue received for highway projects which is a reimbursement of the expenditures.

Most categories of expenses increase as a result of standard budgetary increases. The increase in public safety was from an increase in salaries from contract negotiations. The decrease in education is net of an increase in salaries from contract negotiations offset with a decrease from the Massachusetts Teachers Retirement System's implementation of GASB #67, #68 and #71. The decrease in Community Development is the result of a decrease in federal and state funding for the Town's Weatherization program.

Business-Type Activities

	2015	2014 (as revised/restated)
Assets:		
Current assets.....	\$ 16,337,800	\$ 12,776,652
Capital assets.....	23,736,895	22,865,270
Total assets.....	40,074,695	35,641,922
Deferred Outflows of Resources.....	195	-
Liabilities:		
Current liabilities (excluding debt).....	182,820	145,649
Noncurrent liabilities (excluding debt).....	7,931,630	7,735,296
Current debt.....	1,495,316	1,361,540
Noncurrent debt.....	7,723,916	7,069,232
Total liabilities.....	17,333,682	16,311,717
Net Position:		
Net investment in capital assets.....	17,203,440	16,204,401
Unrestricted.....	5,537,768	3,125,804
Total net position.....	\$ 22,741,208	\$ 19,330,205

	2015	2014 (as revised/restated)
Program revenues:		
Charges for services.....	\$ 17,002,973	\$ 15,906,693
Operating grants and contributions.....	199,514	147,512
Capital grants and contributions.....	600,000	-
General revenues:		
Unrestricted investment income.....	53,942	39,822
Total revenues.....	17,856,429	16,094,027
Expenses:		
Water and Sewer.....	18,305,620	18,010,392
Youth Services.....	590,265	582,744
Council on Aging.....	109,930	120,856
Ed Burns Arena.....	610,885	646,235
Recreation.....	665,280	671,791
Total expenses.....	20,281,980	20,032,018
Transfers.....	5,836,554	5,909,465
Change in net position.....	3,411,003	1,971,474
Net position, beginning of year, as revised/restated.....	19,330,205	17,358,731
Net position, end of year.....	\$ 22,741,208	\$ 19,330,205

The beginning net position of business-type activities has been revised to reflect the implementation of GASB Statements #67, #68, and #71 and restated to reclass the OPEB liability. To reflect this change, the Town has recorded a net pension liability and a deferred outflow of resources, which has resulted in the revision of the June 30, 2014, balance of the business-type activities by \$6,950,918. The Town restated other postemployment benefit obligations between governmental and business type activities by \$516,317. Previously reported net position of \$25,764,806 has been revised/restated to \$19,330,205.

There was a net increase of \$3.4 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 2015 by approximately \$5.6 million to offset a portion of the costs associated with the repayment of debt to the Massachusetts Water Resources Authority. The increase in net position of \$3.4 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 rates and usage. The increase in water and sewer expenses was primarily made up of increases in salaries from contract negotiations and a \$67,000 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 \$1.8 million in 2015, 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 \$72 million, an increase of \$6.7 million from the prior year.

The general fund reported a \$5.8 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 \$20.9 million at year end and reported an increase of \$4.4 million from 2014, which was primarily the result of funds generated by the 2012 tax override. The operating general fund accounted for the remaining \$1.4 million increase which was due to \$2.2 million in premiums from issuance of bonds received and transferred in from nonmajor funds offset with the planned use of reserves and snow and ice expenses.

The Town's capital borrowing major fund had reported a fund balance of \$5 million, an increase of \$1.4 million from the prior year. During 2015, the Town recognized \$11 million in bond proceeds in this major fund which represents long-term borrowing used to finance various capital projects identified in the Town's capital improvement plan. Current expenditures in this fund totaled \$9.7 million and related mainly to improvements to the community safety building and fire stations.

There was a \$514,000 thousand decrease in the nonmajor governmental funds, which reported \$20.2 million in revenues, \$21.1 million in expenditures, and \$467,174 thousand in net other financing sources (uses).

General Fund Budgetary Highlights

The change between the original and final budget of \$486,000 was primarily comprised of additional appropriations to the Symmes property and capital projects as well as various transfers between functional line items and the release of prior year carryover budgets. In the final budget, the Town budgeted to use \$3 million of available reserves “free cash” to balance the 2015 budget. However, actual results from operations were better than anticipated as the Town collected approximately \$2.8 million more than budgeted and departments expended \$304,000 less than budgeted.

By category, all actual revenues came in over budget. The largest revenue variance was in the motor vehicle excise taxes category where estimated revenue is budgeted conservatively and revenues increased from prior year. Other significant revenue surpluses were in real estate and personal property taxes and departmental and other which came in over budget by approximately \$702,000 and \$388,000, respectively. Expenditures for education came in under budget by approximately \$249,000 partly due to the close out of prior year encumbrances. General government expenditures and carryforwards were under budget by approximately \$216,000. This was mainly due to the Town’s workers compensation reserve which turned back \$151,000 and the unused portion of the reserve fund which was approximately \$19,000. Expenditures exceeded the budget for snow and ice removal (public works). The Town is allowed to overspend for snow and ice removal and to raise any unfunded deficit in the subsequent year.

Additionally, net transfers in were \$1.7 million greater than budgeted, mainly from bond premiums of \$1.3 million closed to the general fund along with funds transferred from the Symmes property and from federal emergency management funds. The Town also received \$911,000 from the premium from issuance of bonds in 2015.

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, 2014, at a 4.0% partially funded discount rate, totaled \$192.5 million. As of June 30, 2015, the Town has recognized a liability for other postemployment benefits totaling \$54.2 million. The increase in the liability is based on the difference between the Annual Required Contribution (ARC) of \$16.3 million and the Town’s actual contribution of \$7.7 million which was made through a combination of benefit payments and pre-fundings to the OPEB Trust Fund in

the amounts of \$6.8 million and \$868,000, respectively. The assets set aside in trust for future benefits amounted to \$8.4 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 \$13.2 million (including Water & Sewer). The Town's outstanding long-term debt related to the general government and water & sewer enterprise, as of June 30, 2015, was \$64 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 2015 from the MWRA assessment to the property taxes. During FY 2015, the Town issued an additional \$200,000 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.

As of June 30, 2015, the Town was entering the initial stages of Phase 3 of the Community Safety Building renovation. Phase 2 had been delayed as a result of unforeseen conditions and the approximate cost of Phase 2 had increased to \$3 million. However, Phase 2 was successfully completed as of March 2015. During 2015, the Town will begin and complete construction 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.

The Town also recently completed the construction and renovation of the Central Fire Station. The expected cost of the project was \$6.3 million, and the project was completed under budget. This completed 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, 2015

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 66,758,602	\$ 10,658,918	\$ 77,417,520
Investments.....	12,672,008	-	12,672,008
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	10,229	-	10,229
Real estate tax deferrals.....	70,086	-	70,086
Tax liens.....	990,780	-	990,780
Motor vehicle excise taxes.....	224,272	-	224,272
User fees.....	-	5,678,882	5,678,882
Departmental and other.....	482,802	-	482,802
Intergovernmental.....	4,232,403	-	4,232,403
Loans.....	137,590	-	137,590
Tax foreclosures.....	396,784	-	396,784
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	280,342	-	280,342
Intergovernmental.....	5,373,385	-	5,373,385
Loans.....	550,361	-	550,361
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	23,164,411	2,954	23,167,365
Depreciable.....	124,361,651	23,733,941	148,095,592
TOTAL ASSETS.....	239,705,706	40,074,695	279,780,401
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding.....	58,645	-	58,645
Deferred outflows related to pensions.....	3,125	195	3,320
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	61,770	195	61,965
LIABILITIES			
CURRENT:			
Warrants payable.....	2,274,305	89,542	2,363,847
Accrued payroll.....	4,059,367	16,278	4,075,645
Tax refunds payable.....	440,000	-	440,000
Accrued interest.....	562,599	-	562,599
Payroll withholdings.....	646,504	-	646,504
Abandoned property.....	44,045	-	44,045
Customer deposits payable.....	95,198	-	95,198
Compensated absences.....	3,296,000	77,000	3,373,000
Workers' compensation.....	115,000	-	115,000
Bonds payable.....	8,164,434	1,495,316	9,659,750
NONCURRENT:			
Compensated absences.....	2,233,000	75,000	2,308,000
Workers' compensation.....	51,000	-	51,000
Net pension liability.....	112,059,649	6,999,652	119,059,301
Other postemployment benefits.....	53,338,196	856,978	54,195,174
Bonds payable.....	47,296,114	7,723,916	55,020,030
TOTAL LIABILITIES.....	234,675,411	17,333,682	252,009,093
DEFERRED INFLOWS OF RESOURCES			
Taxes paid in advance.....	93,740	-	93,740
NET POSITION			
Net investment in capital assets.....	104,863,992	17,203,440	122,067,432
Restricted for:			
Loans.....	687,951	-	687,951
Permanent funds:			
Expendable.....	7,396,783	-	7,396,783
Nonexpendable.....	5,215,587	-	5,215,587
Gifts and grants.....	4,356,519	-	4,356,519
Unrestricted.....	(117,522,507)	5,537,768	(111,984,739)
TOTAL NET POSITION.....	\$ 4,998,325	\$ 22,741,208	\$ 27,739,533

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
Primary Government:						
<i>Governmental Activities:</i>						
General government.....	\$ 11,994,175	\$ 2,246,235	\$ 212,910	\$ -	\$ (9,535,030)	
Public safety.....	26,530,179	4,355,275	199,891	-	(21,975,013)	
Education.....	92,752,859	2,957,503	23,079,726	84,847	(66,630,783)	
Public works.....	13,783,618	761,106	151,316	251,334	(12,619,862)	
Community development.....	3,235,477	473,091	1,492,698	-	(1,269,688)	
Human services.....	2,112,859	240,040	496,560	-	(1,376,259)	
Library.....	3,655,453	79,076	518,988	-	(3,057,389)	
Culture and recreation.....	1,085,309	964,052	51,020	-	(70,237)	
Interest.....	1,544,213	-	589,389	-	(954,824)	
Total Governmental Activities.....	156,694,142	12,076,378	26,792,498	336,181	(117,489,085)	
<i>Business-Type Activities:</i>						
Water and Sewer.....	18,305,620	15,434,590	-	600,000	(2,271,030)	
Youth Services.....	590,265	296,069	178,253	-	(115,943)	
Council on Aging.....	109,930	18,441	21,261	-	(70,228)	
Ed Burns Arena.....	610,885	593,985	-	-	(16,900)	
Recreation.....	665,280	659,888	-	-	(5,392)	
Total Business-Type Activities.....	20,281,980	17,002,973	199,514	600,000	(2,479,493)	
Total Primary Government.....	\$ 176,976,122	\$ 29,079,351	\$ 26,992,012	\$ 936,181	\$ (119,968,578)	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (117,489,085)	\$ (2,479,493)	\$ (119,968,578)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	104,296,793	-	104,296,793
Tax liens.....	609,501	-	609,501
Motor vehicle excise taxes.....	4,668,133	-	4,668,133
Hotel/motel tax.....	330,739	-	330,739
Meals tax.....	401,870	-	401,870
Penalties and interest on taxes.....	420,679	-	420,679
Grants and contributions not restricted to specific programs.....	7,133,944	-	7,133,944
Unrestricted investment income.....	940,814	53,942	994,756
Gain on sale of capital assets.....	65,000	-	65,000
Miscellaneous.....	24,750	-	24,750
<i>Transfers, net</i>	(5,836,554)	5,836,554	-
Total general revenues and transfers.....	113,055,669	5,890,496	118,946,165
Change in net position.....	(4,433,416)	3,411,003	(1,022,413)
<i>Net Position:</i>			
Beginning of year, as revised/restated.....	9,431,741	19,330,205	28,761,946
End of year.....	\$ 4,998,325	\$ 22,741,208	\$ 27,739,533

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2015

	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 47,519,414	\$ 6,417,212	\$ 12,821,976	\$ 66,758,602
Investments.....	-	-	12,672,008	12,672,008
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	10,229	-	-	10,229
Real estate tax deferrals.....	350,428	-	-	350,428
Tax liens.....	990,780	-	-	990,780
Motor vehicle excise taxes.....	224,272	-	-	224,272
Departmental and other.....	482,802	-	-	482,802
Intergovernmental.....	7,762,421	-	1,843,367	9,605,788
Loans.....	-	-	687,951	687,951
Tax foreclosures.....	396,784	-	-	396,784
TOTAL ASSETS.....	\$ 57,737,130	\$ 6,417,212	\$ 28,025,302	\$ 92,179,644
LIABILITIES				
Warrants payable.....	\$ 696,630	\$ 1,381,155	\$ 196,520	\$ 2,274,305
Accrued payroll.....	3,970,191	-	89,176	4,059,367
Tax refunds payable.....	440,000	-	-	440,000
Liabilities due depositors.....	95,198	-	-	95,198
Payroll withholdings.....	646,504	-	-	646,504
Abandoned property.....	44,045	-	-	44,045
TOTAL LIABILITIES.....	5,892,568	1,381,155	285,696	7,559,419
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue.....	10,217,716	-	2,347,753	12,565,469
Taxes paid in advance.....	93,740	-	-	93,740
TOTAL DEFERRED INFLOWS OF RESOURCES.....	10,311,456	-	2,347,753	12,659,209
FUND BALANCES				
Nonspendable.....	-	-	5,215,587	5,215,587
Restricted.....	3,860,841	5,036,057	20,176,266	29,073,164
Committed.....	946,837	-	-	946,837
Assigned.....	7,058,067	-	-	7,058,067
Unassigned.....	29,667,361	-	-	29,667,361
TOTAL FUND BALANCES.....	41,533,106	5,036,057	25,391,853	71,961,016
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 57,737,130	\$ 6,417,212	\$ 28,025,302	\$ 92,179,644

See notes to basic financial statements.

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

JUNE 30, 2015

Total governmental fund balances.....	\$ 71,961,016
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	147,526,062
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....	12,565,469
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....	3,125
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(562,599)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds payable.....	(53,718,000)
Unamortized premium on bonds payable.....	(1,742,548)
Workers' compensation.....	(166,000)
Compensated absences.....	(5,529,000)
Net pension liability.....	(112,059,649)
Other postemployment benefits.....	<u>(53,338,196)</u>
Net effect of reporting long-term liabilities.....	(226,553,393)
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>58,645</u>
Net position of governmental activities.....	<u>\$ 4,998,325</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2015

	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 104,356,047	\$ -	\$ 292	\$ 104,356,339
Tax liens.....	574,342	-	-	574,342
Motor vehicle excise taxes.....	4,668,133	-	-	4,668,133
Hotel/motel tax.....	330,739	-	-	330,739
Meals tax.....	401,870	-	-	401,870
Fees and rentals.....	-	-	150,377	150,377
Intergovernmental.....	25,856,129	84,847	8,524,117	34,465,093
Departmental and other.....	4,437,506	-	9,899,145	14,336,651
Contributions.....	5,325	-	801,568	806,893
Investment income.....	148,715	42	793,481	942,238
TOTAL REVENUES.....	140,778,806	84,889	20,168,980	161,032,675
EXPENDITURES:				
Current:				
General government.....	4,382,354	336,129	1,724,547	6,443,030
Public safety.....	14,931,323	6,311,101	1,986,536	23,228,960
Education.....	54,577,944	1,016,447	10,584,619	66,179,010
Public works.....	10,331,426	1,380,351	2,210,102	13,921,879
Community development.....	702,159	11,867	2,225,496	2,939,522
Human services.....	1,084,361	480	587,510	1,672,351
Library.....	2,087,496	132,150	217,235	2,436,881
Culture and recreation.....	4,206	544,073	861,059	1,409,338
Pension benefits.....	14,048,794	-	-	14,048,794
Property and liability insurance.....	309,399	-	-	309,399
Employee benefits.....	15,765,665	-	75,000	15,840,665
State and county charges.....	3,077,899	-	-	3,077,899
Debt service:				
Principal.....	6,731,000	-	545,000	7,276,000
Interest.....	1,532,702	-	132,750	1,665,452
TOTAL EXPENDITURES.....	129,566,728	9,732,598	21,149,854	160,449,180
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	11,212,078	(9,647,709)	(980,874)	583,495
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds.....	-	11,018,000	-	11,018,000
Premium from issuance of bonds.....	910,686	-	-	910,686
Sale of capital assets.....	-	-	65,000	65,000
Transfers in.....	2,115,933	109,995	2,809,989	5,035,917
Transfers out.....	(8,423,594)	(41,062)	(2,407,815)	(10,872,471)
TOTAL OTHER FINANCING SOURCES (USES)....	(5,396,975)	11,086,933	467,174	6,157,132
NET CHANGE IN FUND BALANCES.....	5,815,103	1,439,224	(513,700)	6,740,627
FUND BALANCES AT BEGINNING OF YEAR.....	35,718,003	3,596,833	25,905,553	65,220,389
FUND BALANCES AT END OF YEAR.....	\$ 41,533,106	\$ 5,036,057	\$ 25,391,853	\$ 71,961,016

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, 2015

Net change in fund balances - total governmental funds.....		\$ 6,740,627
<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.....	11,280,462	
Depreciation expense.....	<u>(5,762,596)</u>	
Net effect of reporting capital assets.....		5,517,866
<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>		
		(3,000,395)
<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.....	(11,018,000)	
Debt service principal payments.....	7,276,000	
Premium from issuance of refunding costs, net of issue costs.....	<u>(910,686)</u>	
Net effect of reporting long-term debt.....		(4,652,686)
Net change in accrued interest on long-term debt.....	(25,435)	
Amortization of bond premiums.....	187,295	
Amortization of deferred charge on refunding.....	<u>(40,621)</u>	
Net effect of reporting other debt related activity.....		121,239
<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.....	66,000	
Net change in deferred outflow/(inflow) of resources related to pensions.....	3,125	
Net change in net pension liability.....	(780,211)	
Net change in other postemployment benefits accrual.....	(8,436,981)	
Net change in workers' compensation accrual.....	<u>(12,000)</u>	
Net effect of recording long-term liabilities.....		<u>(9,160,067)</u>
Change in net position of governmental activities.....		\$ <u><u>(4,433,416)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 10,216,164	\$ 51,193	\$ 102,061
Receivables, net of allowance for uncollectibles:			
User fees.....	5,678,882	-	-
Total current assets.....	15,895,046	51,193	102,061
NONCURRENT:			
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	2,954	-	-
Depreciable.....	21,545,628	-	22,035
Total noncurrent assets.....	21,548,582	-	22,035
TOTAL ASSETS.....	37,443,628	51,193	124,096
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	195	-	-
LIABILITIES			
CURRENT:			
Warrants payable.....	81,963	5,773	193
Accrued payroll.....	7,474	2,747	1,218
Compensated absences.....	63,000	-	-
Bonds payable.....	1,380,316	-	-
Total current liabilities.....	1,532,753	8,520	1,411
NONCURRENT:			
Compensated absences.....	63,000	-	-
Net pension liability.....	6,999,652	-	-
Other postemployment benefits.....	856,978	-	-
Bonds payable.....	7,088,916	-	-
Total noncurrent liabilities.....	15,008,546	-	-
TOTAL LIABILITIES.....	16,541,299	8,520	1,411
NET POSITION			
Net investment in capital assets.....	15,765,127	-	22,035
Unrestricted.....	5,137,397	42,673	100,650
TOTAL NET POSITION.....	\$ 20,902,524	\$ 42,673	\$ 122,685

See notes to basic financial statements.

Ed Burns Arena Enterprise	Recreation Enterprise	Total
\$ 79,022	\$ 210,478	\$ 10,658,918
-	-	5,678,882
79,022	210,478	16,337,800
-	-	2,954
1,116,713	1,049,565	23,733,941
1,116,713	1,049,565	23,736,895
1,195,735	1,260,043	40,074,695
-	-	195
287	1,326	89,542
1,581	3,258	16,278
14,000	-	77,000
115,000	-	1,495,316
130,868	4,584	1,678,136
12,000	-	75,000
-	-	6,999,652
-	-	856,978
635,000	-	7,723,916
647,000	-	15,655,546
777,868	4,584	17,333,682
366,713	1,049,565	17,203,440
51,154	205,894	5,537,768
\$ 417,867	\$ 1,255,459	\$ 22,741,208

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

YEAR ENDED JUNE 30, 2015

	Business-type Activities - Enterprise Funds		
	Water and Sewer Enterprise	Youth Services Enterprise	Council On Aging Enterprise
OPERATING REVENUES:			
Charges for services.....	\$ 15,434,590	\$ 296,069	\$ 18,441
Intergovernmental.....	-	178,253	21,261
TOTAL OPERATING REVENUES.....	15,434,590	474,322	39,702
OPERATING EXPENSES:			
Salaries and wages.....	2,164,808	356,817	78,952
Cost of services and administration.....	1,252,112	233,448	25,470
MWRA Assessment.....	12,282,464	-	-
Depreciation.....	757,623	-	5,508
Employee benefits.....	1,722,976	-	-
TOTAL OPERATING EXPENSES.....	18,179,983	590,265	109,930
OPERATING INCOME (LOSS).....	(2,745,393)	(115,943)	(70,228)
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	53,942	-	-
Interest expense.....	(125,637)	-	-
Intergovernmental.....	600,000	-	-
TOTAL NONOPERATING REVENUES, (EXPENSES), NET.....	528,305	-	-
INCOME (LOSS) BEFORE TRANSFERS.....	(2,217,088)	(115,943)	(70,228)
TRANSFERS:			
Transfers in.....	5,615,212	122,642	31,780
CHANGE IN NET POSITION.....	3,398,124	6,699	(38,448)
NET POSITION AT BEGINNING OF YEAR, AS REVISED/RESTATED....	17,504,400	35,974	161,133
NET POSITION AT END OF YEAR.....	\$ 20,902,524	\$ 42,673	\$ 122,685

See notes to basic financial statements.

Ed Burns Arena Enterprise	Recreation Enterprise	Total
\$ 593,985	\$ 659,888	\$ 17,002,973
-	-	199,514
593,985	659,888	17,202,487
259,858	274,591	3,135,026
201,071	270,408	1,982,509
-	-	12,282,464
75,195	67,699	906,025
51,405	52,582	1,826,963
587,529	665,280	20,132,987
6,456	(5,392)	(2,930,500)
-	-	53,942
(23,356)	-	(148,993)
-	-	600,000
(23,356)	-	504,949
(16,900)	(5,392)	(2,425,551)
55,356	11,564	5,836,554
38,456	6,172	3,411,003
379,411	1,249,287	19,330,205
\$ 417,867	\$ 1,255,459	\$ 22,741,208

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

	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.....	\$ 16,086,824	\$ 296,069	\$ 18,441
Receipts from other governments.....	-	178,253	21,261
Payments to vendors.....	(15,040,680)	(237,716)	(26,835)
Payments to employees.....	(2,153,334)	(354,070)	(77,734)
NET CASH FROM OPERATING ACTIVITIES.....	(1,107,190)	(117,464)	(64,867)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in.....	5,615,212	122,642	31,780
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the issuance of bonds and notes.....	2,150,000	-	-
Acquisition and construction of capital assets.....	(1,777,650)	-	-
Principal payments on bonds and notes.....	(1,246,540)	-	-
Interest expense.....	(125,637)	-	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(999,827)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income.....	53,942	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	4,162,137	5,178	(33,087)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	6,054,027	46,015	135,148
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 10,216,164	\$ 51,193	\$ 102,061
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH			
FROM OPERATING ACTIVITIES:			
Operating income (loss).....	\$ (2,745,393)	\$ (115,943)	\$ (70,228)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	757,623	-	5,508
Deferred (outflows)/inflows related to pensions.....	(195)	-	-
Changes in assets and liabilities:			
User fees.....	652,234	-	-
Warrants payable.....	22,733	(4,268)	(1,365)
Accrued payroll.....	7,474	2,747	1,218
Accrued compensated absences.....	4,000	-	-
Net pension liability.....	48,734	-	-
Other postemployment benefits.....	145,600	-	-
Total adjustments.....	1,638,203	(1,521)	5,361
NET CASH FROM OPERATING ACTIVITIES.....	\$ (1,107,190)	\$ (117,464)	\$ (64,867)

See notes to basic financial statements.

Ed Burns Arena Enterprise	Recreation Enterprise	Total
\$ 593,985	\$ 659,888	\$ 17,655,207
-	-	199,514
(252,864)	(324,809)	(15,882,904)
<u>(254,277)</u>	<u>(271,333)</u>	<u>(3,110,748)</u>
<u>86,844</u>	<u>63,746</u>	<u>(1,138,931)</u>
<u>55,356</u>	<u>11,564</u>	<u>5,836,554</u>
-	-	2,150,000
-	-	(1,777,650)
(115,000)	-	(1,361,540)
<u>(23,356)</u>	<u>-</u>	<u>(148,993)</u>
<u>(138,356)</u>	<u>-</u>	<u>(1,138,183)</u>
<u>-</u>	<u>-</u>	<u>53,942</u>
3,844	75,310	4,213,382
<u>75,178</u>	<u>135,168</u>	<u>6,445,536</u>
\$ <u>79,022</u>	\$ <u>210,478</u>	\$ <u>10,658,918</u>
\$ <u>6,456</u>	\$ <u>(5,392)</u>	\$ <u>(2,930,500)</u>
75,195	67,699	906,025
-	-	(195)
-	-	652,234
(388)	(1,819)	14,893
1,581	3,258	16,278
4,000	-	8,000
-	-	48,734
<u>-</u>	<u>-</u>	<u>145,600</u>
<u>80,388</u>	<u>69,138</u>	<u>1,791,569</u>
\$ <u>86,844</u>	\$ <u>63,746</u>	\$ <u>(1,138,931)</u>

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	Pension Trust Fund (as of December 31, 2014)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents.....	\$ 5,484,308	\$ -	\$ 376,562	\$ 41,871
Investments:				
U.S. Treasury Bonds.....	-	-	743,626	-
Corporate Bonds.....	-	-	1,092,774	-
Bond Mutual Funds.....	-	3,143,824	-	-
Government Sponsored Enterprises.....	-	-	37,447	-
Equity Mutual Funds.....	4,289,918	5,233,832	-	-
Equity Securities.....	-	-	3,965,998	-
Real Estate Investment Trusts.....	-	-	86,753	-
PRIT.....	125,058,177	-	-	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	485,974	-	-	-
Interest and dividends.....	304	-	-	-
TOTAL ASSETS.....	135,318,681	8,377,656	6,303,160	41,871
LIABILITIES				
Warrants payable.....	205,000	-	36,640	-
Liabilities due depositors.....	-	-	-	41,871
TOTAL LIABILITIES.....	205,000	-	36,640	41,871
NET POSITION				
Held in trust for pension and OPEB benefits and other purposes.....	\$ 135,113,681	\$ 8,377,656	\$ 6,266,520	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2015

	Pension Trust Fund (as of December 31, 2014)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 9,993,280	\$ 867,877	\$ -
Member contributions.....	3,187,005	-	-
Member contributions - transfers from other systems.....	134,262	-	-
Retirement benefits - 3(8)c contributions from other systems.....	463,389	-	-
Private donations.....	-	-	291,530
	<u>13,777,936</u>	<u>867,877</u>	<u>291,530</u>
Total contributions.....			
Net investment income (loss):			
Net change in fair value of investments.....	10,282,471	82,003	223,620
Investment income.....	3,437	-	129,883
	<u>10,285,908</u>	<u>82,003</u>	<u>353,503</u>
Total investment income (loss).....			
Less: investment expense.....	(702,202)	-	-
	<u>9,583,706</u>	<u>82,003</u>	<u>353,503</u>
Net investment income (loss).....			
Retirement benefits - workers' compensation settlements.....	3,750	-	-
Retirement benefits - state COLA reimbursements.....	322,164	-	-
	<u>23,687,556</u>	<u>949,880</u>	<u>645,033</u>
TOTAL ADDITIONS.....			
DEDUCTIONS:			
Administration.....	295,509	-	-
Retirement benefits - transfers to other systems.....	751,045	-	-
Retirement benefits - 3(8)c transfers to other systems.....	429,401	-	-
Retirement benefits and refunds.....	16,735,563	-	-
Human services.....	-	-	14,026
Educational scholarships.....	-	-	377,603
	<u>18,211,518</u>	<u>-</u>	<u>391,629</u>
TOTAL DEDUCTIONS.....			
CHANGE IN NET POSITION.....	5,476,038	949,880	253,404
NET POSITION AT BEGINNING OF YEAR.....	<u>129,637,643</u>	<u>7,427,776</u>	<u>6,013,116</u>
NET POSITION AT END OF YEAR.....	<u>\$ 135,113,681</u>	<u>\$ 8,377,656</u>	<u>\$ 6,266,520</u>

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Arlington, Massachusetts (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.

Component Unit Presented as a Fiduciary Fund – The following component unit is presented as a fiduciary fund of the primary government due to the nature and significance of the relationship between the City and the component unit.

The Arlington Contributory Retirement System (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.

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 is a member of the Minuteman Career & Technical High School that serves the members students seeking an education in academic and technical studies. The members share in the operations of the Minuteman Career & Technical High School and each member is responsible for its proportionate share of the operational and capital cost of the Minuteman Career & Technical High School, which are paid in the form of assessments. The Town does not have an equity interest in the Minuteman Career & Technical High School and the 2015 assessment was \$3,788,615.

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 for 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 for 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 and deferred outflows of resources related to pensions 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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of both the Arlington Contributory Retirement System and the Massachusetts Teachers Retirement System and additions to/deductions from the Systems fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Long-term debt*Government-Wide and Proprietary Fund Financial Statements*

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

Governmental Fund Financial Statements

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

N. Investment Income

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

O. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

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

Q. Total Column*Government-Wide Financial Statements*

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (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 \$8.4 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 \$54,331,763 and the bank balance totaled \$56,883,747. Of the bank balance, \$7,705,352 was covered by Federal Depository Insurance, \$14,853,970 was covered by Depositors Insurance Fund, and \$34,324,425 was fully collateralized. Accordingly, none of the Town's deposits are exposed to custodial credit risk.

At December 31, 2014, carrying amount of deposits for the Pension System totaled \$35,009 and the bank balance totaled \$393,947. 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, 2015, 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.....	\$ 2,333,616	\$ 298,524	\$ 575,866	\$ 863,601	\$ 595,625
Corporate Bonds.....	3,429,299	-	1,370,218	521,983	1,537,098
Government Sponsored Enterprises.....	117,515	-	-	117,515	-
Total Debt Securities.....	5,880,430	<u>\$ 298,524</u>	<u>\$ 1,946,084</u>	<u>\$ 1,503,099</u>	<u>\$ 2,132,723</u>
<u>Other Investments:</u>					
Mutual Funds.....	8,377,656				
Equity Securities.....	12,445,932				
Real Estate Investment Trusts.....	272,244				
Money Market Mutual Funds.....	641,470				
MMDT.....	<u>22,862,720</u>				
Total Investments.....	\$ 50,480,452				

As of December 31, 2014, the Pension System had the following investments:

PRIT.....	\$ 125,058,177
Money Market Mutual Funds.....	5,449,299
Equity Mutual Funds.....	4,289,918
Total Investments.....	\$ 134,797,394

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 1.33 to 21.81 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, 2015, the Town's investments in MMDT which totaled \$22,862,720 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 \$12,445,932 and \$272,244 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, 2014, the System's investments in PRIT and open-end mutual funds totaling \$134,797,394 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, 2015, the Town's investments were rated as follows:

Quality Ratings	Corporate Bonds	Government Sponsored Enterprises	U.S. Treasury Bonds
AAA.....	\$ 211,836	\$ -	\$ 2,333,616
AA+.....	294,293	117,515	-
AA.....	353,271	-	-
AA-.....	306,148	-	-
A+.....	320,329	-	-
A.....	504,570	-	-
A-.....	504,732	-	-
BBB+.....	628,384	-	-
BBB.....	72,623	-	-
BBB-.....	233,113	-	-
Fair Value.....	\$ <u>3,429,299</u>	\$ <u>117,515</u>	\$ <u>2,333,616</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, 2015, 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.....	\$ 10,229	\$ -	\$ 10,229
Real estate tax deferrals.....	350,428	-	350,428
Tax liens.....	990,780	-	990,780
Motor vehicle excise taxes.....	329,480	(105,208)	224,272
Departmental and other.....	483,041	(239)	482,802
Intergovernmental.....	9,605,788	-	9,605,788
Loans.....	687,951	-	687,951
Total.....	<u>\$ 12,457,697</u>	<u>\$ (105,447)</u>	<u>\$ 12,352,250</u>

At June 30, 2015, receivables for the proprietary funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer fees.....	<u>\$ 5,678,882</u>	<u>\$ -</u>	<u>\$ 5,678,882</u>

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.....	\$ 10,229	\$ -	\$ 10,229
Real estate tax deferrals.....	350,428	-	350,428
Tax liens.....	990,780	-	990,780
Motor vehicle excise taxes.....	224,272	-	224,272
Departmental and other.....	482,802	-	482,802
State school construction funds.....	7,762,421	-	7,762,421
Intergovernmental.....	-	1,659,802	1,659,802
Loans.....	-	687,951	687,951
Tax foreclosures.....	396,784	-	396,784
Total.....	<u>\$ 10,217,716</u>	<u>\$ 2,347,753</u>	<u>\$ 12,565,469</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, 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.....	7,730,018	6,655,327	(1,746,527)	12,638,818
Total capital assets not being depreciated.....	18,255,611	6,655,327	(1,746,527)	23,164,411
<u>Capital assets being depreciated:</u>				
Buildings.....	130,252,604	-	-	130,252,604
Improvements.....	17,708,733	924,123	-	18,632,856
Vehicles and equipment.....	11,183,148	1,531,117	-	12,714,265
Infrastructure.....	69,595,546	3,916,422	-	73,511,968
Total capital assets being depreciated.....	228,740,031	6,371,662	-	235,111,693
<u>Less accumulated depreciation for:</u>				
Buildings.....	(48,635,461)	(2,481,494)	-	(51,116,955)
Improvements.....	(4,640,003)	(855,754)	-	(5,495,757)
Vehicles and equipment.....	(7,436,264)	(951,189)	-	(8,387,453)
Infrastructure.....	(44,275,718)	(1,474,159)	-	(45,749,877)
Total accumulated depreciation.....	(104,987,446)	(5,762,596)	-	(110,750,042)
Total capital assets being depreciated, net.....	123,752,585	609,066	-	124,361,651
Total governmental activities capital assets, net.....	\$ 142,008,196	\$ 7,264,393	\$ (1,746,527)	\$ 147,526,062

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,954	\$ -	\$ -	\$ 2,954
Construction in progress.....	93,803	-	(93,803)	-
Total capital assets not being depreciated.....	96,757	-	(93,803)	2,954
<u>Capital assets being depreciated:</u>				
Buildings.....	730,566	-	-	730,566
Improvements.....	2,559,803	-	-	2,559,803
Vehicles and equipment.....	3,477,620	28,792	-	3,506,412
Infrastructure.....	23,383,365	1,842,661	-	25,226,026
Total capital assets being depreciated.....	30,151,354	1,871,453	-	32,022,807
<u>Less accumulated depreciation for:</u>				
Buildings.....	(231,627)	(15,119)	-	(246,746)
Improvements.....	(445,815)	(130,648)	-	(576,463)
Vehicles and equipment.....	(1,503,325)	(302,710)	-	(1,806,035)
Infrastructure.....	(5,202,074)	(457,548)	-	(5,659,622)
Total accumulated depreciation.....	(7,382,841)	(906,025)	-	(8,288,866)
Total capital assets being depreciated, net.....	22,768,513	965,428	-	23,733,941
Total business-type activities capital assets, net.....	\$ 22,865,270	\$ 965,428	\$ (93,803)	\$ 23,736,895

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

Governmental Activities:

General government.....	\$ 328,173
Public safety.....	637,189
Education.....	2,446,098
Public works.....	1,888,257
Property and natural resources.....	121,291
Community development.....	77,215
Human services.....	15,210
Library.....	188,857
Culture and recreation.....	60,306

Total depreciation expense - governmental activities..... \$ 5,762,596

Business-Type Activities:

Water and sewer.....	\$ 757,623
Council on aging.....	5,508
Ed Burns Arena.....	75,195
Recreation.....	67,699

Total depreciation expense - business-type activities..... \$ 906,025

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended June 30, 2015, are summarized as follows:

Transfers In:	Transfers Out:			
	General Fund	Capital Borrowing Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 41,062	\$ 2,074,871	\$ 2,115,933 (1)
Capital Borrowing Fund.....	109,995	-	-	109,995 (2)
Nonmajor Governmental Funds.....	2,478,825	-	331,164	2,809,989 (3)
Water and Sewer Enterprise Fund.....	5,615,212	-	-	5,615,212 (4)
Youth Services Enterprise Fund.....	122,642	-	-	122,642 (4)
Council On Aging Enterprise Fund.....	30,000	-	1,780	31,780 (4)
Ed Burns Arena Enterprise Fund.....	55,356	-	-	55,356 (4)
Recreation Enterprise Fund.....	11,564	-	-	11,564 (4)
Totals.....	\$ <u>8,423,594</u>	\$ <u>41,062</u>	\$ <u>2,407,815</u>	\$ <u>10,872,471</u>

- (1) Represents budgeted transfers to the general fund from the capital borrowing major fund, the ambulance revolving, antenna revolving, deferred payment trust and capital tax levy nonmajor governmental funds to fund the operating budget. Also represents transfers to the general fund from the cemetery perpetual care, central school, conservation commission, Symmes property, premium from sale of bonds and federal emergency management funds.
- (2) Represents a budgeted transfer from the general fund to the Town's capital borrowing fund.
- (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, 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 trust funds to the council on aging enterprise fund.

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.

During the year the Town had the following short-term debt activity:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2014	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2015
BAN	Bond Anticipation Note.....	0.45	10/30/14	\$ 450,000	\$ -	\$ (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, 2015, 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, 2014	Issued	Redeemed	Outstanding at June 30, 2015
Municipal Purpose - 2004.....	2015	\$ 3,980,000	2.50-3.75	\$ 330,000	\$ -	\$ (330,000)	\$ -
GOB Refunding - 2005.....	2017	3,100,000	3.00-5.00	1,225,000	-	(395,000)	830,000
GOB Refunding - 2005.....	2017	2,630,000	3.00-5.00	805,000	-	(270,000)	535,000
Municipal Purpose - 2005.....	2021	5,171,000	2.80-4.13	1,560,000	-	(280,000)	1,280,000
Municipal Purpose - 2006.....	2026	3,320,952	4.00-5.50	3,250,000	-	(300,000)	2,950,000
Municipal Purpose - 2007.....	2018	3,102,000	3.75-4.75	900,000	-	(225,000)	675,000
GOB Refunding - 2007.....	2018	11,690,000	3.75-5.00	4,760,000	-	(1,280,000)	3,480,000
Municipal Purpose - 2007.....	2018	100,000	3.75-4.5	40,000	-	(10,000)	30,000
Municipal Purpose - 2008.....	2019	3,875,000	3.00-3.62	950,000	-	(190,000)	760,000
Symmes Property.....	2022	5,262,000	2.00-4.00	3,715,000	-	(415,000)	3,300,000
Municipal Purpose - 2009.....	2020	2,482,000	2.00-3.00	1,355,000	-	(280,000)	1,075,000
Municipal Purpose - 2010.....	2031	7,258,000	2.00-4.00	5,675,000	-	(515,000)	5,160,000
Symmes Property - taxable.....	2019	840,000	2.00-2.50	570,000	-	(130,000)	440,000
Symmes Property.....	2022	470,000	2.00-3.00	470,000	-	-	470,000
Municipal Purpose - 2012.....	2022	1,329,000	2.00-3.00	825,000	-	(210,000)	615,000
GOB Refunding - 2012.....	2021	6,311,000	2.00-3.00	4,815,000	-	(730,000)	4,085,000
Municipal Purpose - 2013.....	2033	12,132,000	2.00-5.00	10,980,000	-	(870,000)	10,110,000
GOB Refunding - 2013.....	2024	2,205,000	2.00-3.00	2,200,000	-	(290,000)	1,910,000
Municipal Purpose - 2014.....	2034	5,551,000	2.00-4.00	5,551,000	-	(556,000)	4,995,000
Municipal Purpose - 2015.....	2035	11,018,000	3.00-3.75	-	11,018,000	-	11,018,000
Total bonds payable.....				49,976,000	11,018,000	(7,276,000)	53,718,000
Add: unamortized premium.....				1,019,157	910,686	(187,295)	1,742,548
Total bonds payable, net.....				\$ 50,995,157	\$ 11,928,686	\$ (7,463,295)	\$ 55,460,548

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

	Principal	Interest	Total
2016.....	\$ 7,823,000	\$ 1,910,157	\$ 9,733,157
2017.....	7,480,000	1,436,233	8,916,233
2018.....	6,310,000	1,177,045	7,487,045
2019.....	4,810,000	968,870	5,778,870
2020.....	4,290,000	804,804	5,094,804
2021.....	3,725,000	662,663	4,387,663
2022.....	2,820,000	545,282	3,365,282
2023.....	2,085,000	456,038	2,541,038
2024.....	1,935,000	387,894	2,322,894
2025.....	1,695,000	330,872	2,025,872
2026.....	1,650,000	281,844	1,931,844
2027.....	1,335,000	242,851	1,577,851
2028.....	1,330,000	208,800	1,538,800
2029.....	1,290,000	173,015	1,463,015
2030.....	1,205,000	136,787	1,341,787
2031.....	1,200,000	100,931	1,300,931
2032.....	940,000	69,078	1,009,078
2033.....	940,000	41,031	981,031
2034.....	505,000	18,637	523,637
2035.....	350,000	5,250	355,250
Totals.....	<u>\$ 53,718,000</u>	<u>\$ 9,958,082</u>	<u>\$ 63,676,082</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 \$461,000. 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, 2015, and the debt service requirements are as follows:

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2014	Issued	Redeemed	Outstanding at June 30, 2015
Municipal Purpose - 2006.....	2017	\$ 2,000,000	4.00-5.50	\$ 600,000	\$ -	\$ (200,000)	\$ 400,000
Water and Sewer Bonds - MWRA.....	2017	8,682,390	-	4,150,772	950,000	(821,540)	4,279,232
Municipal Purpose - 2012.....	2022	1,300,000	2.00-3.00	1,040,000	-	(130,000)	910,000
Municipal Purpose - 2013.....	2022	280,000	2.00-5.00	475,000	-	(30,000)	445,000
Municipal Purpose - 2014.....	2033	1,300,000	3.00-3.75	1,300,000	-	(65,000)	1,235,000
Municipal Purpose - 2015.....	2034	1,200,000	4.00	-	1,200,000	-	1,200,000
Total water and sewer enterprise fund bonds payable.....				<u>\$ 7,565,772</u>	<u>\$ 2,150,000</u>	<u>\$ (1,246,540)</u>	<u>\$ 8,469,232</u>

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

	Principal	Interest	Total
2016.....	\$ 1,380,316	\$ 159,344	\$ 1,539,660
2017.....	1,255,716	114,619	1,370,335
2018.....	1,035,300	97,619	1,132,919
2019.....	951,100	84,994	1,036,094
2020.....	765,600	72,494	838,094
2021.....	655,600	60,119	715,719
2022.....	650,600	47,969	698,569
2023.....	455,000	37,869	492,869
2024.....	370,000	29,969	399,969
2025.....	185,000	24,919	209,919
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.....	\$ 8,469,232	\$ 838,538	\$ 9,307,770

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

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2014	Issued	Redeemed	Outstanding at June 30, 2015
Municipal Purpose - 2009.....	2020	\$ 1,000,000	2.00-3.00	\$ 600,000	\$ -	\$ (100,000)	\$ 500,000
Municipal Purpose - 2013.....	2033	280,000	2.00-5.00	265,000	-	(15,000)	250,000
Total Veteran's rink enterprise fund bonds payable.....				\$ 865,000	\$ -	\$ (115,000)	\$ 750,000

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>
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>\$ 750,000</u>	<u>\$ 95,359</u>	<u>\$ 845,359</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 2015, \$2,906,266 of such assistance was received. Approximately \$7,995,000 will be received in future years. Of this amount, approximately \$233,000 represents reimbursement of long-term interest costs, and approximately \$7,762,000 represents reimbursement of approved construction costs. Accordingly, a \$7,762,000 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 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. Through the end of 2015, the Town has recorded capital grant revenue totaling approximately \$9 million from the MSBA which is equal to 50.42% of approved construction costs incurred to date. The Town does not anticipate receiving any additional reimbursements.

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, 2015, the Town had the following authorized and unissued debt:

Purpose	Amount
Thompson Elementary School.....	\$ 8,308,532
Stratton Building Improvements.....	1,085,000
School Improvements.....	1,335,840
Road Repairs.....	75,000
Sewer.....	1,600,000
Water.....	3,200,000
Rink Renovations.....	275,000
Various Purposes.....	2,316,665
Community Safety Building Renovations....	7,647,000
Building and Safety Improvements.....	261,400
Departmental Equipment.....	661,150
Flood Mitigation.....	300,000
Playground.....	455,000
Total.....	<u>\$ 27,520,587</u>

Changes in long-term liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Long-Term Bonds.....	\$ 49,976,000	\$ 11,018,000	\$ (7,276,000)	\$ 53,718,000	\$ 7,823,000
Add: Unamortized Premium.....	1,019,157	910,686	(187,295)	1,742,548	341,434
Total Long-Term Bonds.....	50,995,157	11,928,686	(7,463,295)	55,460,548	8,164,434
Net Pension Liability.....	111,279,438	780,211	-	112,059,649	-
Other Postemployment Benefits.....	44,901,215	16,057,355	(7,620,374)	53,338,196	-
Workers' Compensation.....	154,000	484,299	(472,299)	166,000	115,000
Compensated Absences.....	5,595,000	3,300,000	(3,366,000)	5,529,000	3,296,000
Total governmental activities.....	<u>\$ 212,924,810</u>	<u>\$ 32,550,551</u>	<u>\$ (18,921,968)</u>	<u>\$ 226,553,393</u>	<u>\$ 11,575,434</u>
Business-Type Activities:					
Long-Term Bonds.....	\$ 8,430,772	\$ 2,150,000	\$ (1,361,540)	\$ 9,219,232	\$ 1,495,316
Net Pension Liability.....	6,950,918	48,734	-	6,999,652	-
Other Postemployment Benefits.....	711,378	218,674	(73,074)	856,978	-
Compensated Absences.....	144,000	79,000	(71,000)	152,000	77,000
Total business-type activities.....	<u>\$ 16,237,068</u>	<u>\$ 2,496,408</u>	<u>\$ (1,505,614)</u>	<u>\$ 17,227,862</u>	<u>\$ 1,572,316</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 total approximately \$16,459,000 and have been reported within the general fund as unassigned and the Town's municipal insurance funds totaling approximately \$3,861,000 have been reported within the general fund as restricted.

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

	General	Capital Borrowing Fund	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Permanent fund principal..... \$	- \$	- \$	5,215,587 \$	5,215,587
Restricted for:				
Municipal insurance.....	3,860,841	-	-	3,860,841
Capital borrowing funds.....	-	5,036,057	-	5,036,057
Town revolving funds.....	-	-	1,820,010	1,820,010
Town gift and grant funds.....	-	-	1,788,905	1,788,905
School lunch.....	-	-	265,944	265,944
School revolving funds.....	-	-	1,265,234	1,265,234
School gift and grant funds.....	-	-	2,567,614	2,567,614
Receipts reserved for appropriation.....	-	-	500,968	500,968
Special revenue trust funds.....	-	-	739,936	739,936
Employee insurance mitigation funds.....	-	-	599,375	599,375
Other special revenue funds.....	-	-	1,533,282	1,533,282
Symmes Property.....	-	-	530,187	530,187
Capital tax levy projects.....	-	-	892,990	892,990
Other capital projects.....	-	-	253,498	253,498
Cemeteries.....	-	-	661,448	661,448
Cemetery perpetual care.....	-	-	3,975,059	3,975,059
Libraries.....	-	-	2,605,025	2,605,025
Education permanent funds.....	-	-	176,791	176,791
Committed to:				
General government.....	355,076	-	-	355,076
Employee benefits.....	15,418	-	-	15,418
Debt service interest.....	576,343	-	-	576,343
Assigned to:				
General government.....	96,714	-	-	96,714
Public safety.....	23,645	-	-	23,645
Education.....	2,848,327	-	-	2,848,327
Public works.....	261,130	-	-	261,130
Human services.....	2,115	-	-	2,115
Library.....	1,604	-	-	1,604
Culture and recreation.....	2,140	-	-	2,140
Property and liability insurance.....	1,818	-	-	1,818
Employee benefits.....	34,728	-	-	34,728
Balance the FY16 operating budget.....	3,785,846	-	-	3,785,846
Unassigned.....	29,667,361	-	-	29,667,361
TOTAL FUND BALANCES..... \$	41,533,106 \$	5,036,057 \$	25,391,853 \$	71,961,016

NOTE 9 – STABILIZATION FUND

At June 30, 2015, the Town has approximately \$2.9 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 – 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, 2015, the Fiscal Stability Fund has a balance of approximately \$18 million which is classified as part of the general fund in the fund-based financial statements.

NOTE 11 – 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 \$599,000.

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

Workers' Compensation

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

At June 30, 2015, the amount of the liability for workers' compensation claims totaled \$166,000. 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
2014..... \$	226,000	\$ 343,696	\$ (415,696)	\$ 154,000
2015.....	154,000	484,299	(472,299)	166,000

NOTE 12 – PENSION PLAN***Plan Descriptions***

The Town is a member of the Arlington Contributory Retirement System (ACRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 2 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension trust fund in the fiduciary

fund financial statements. The Town is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Town to the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2014. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$5,409,767 is reported in the general fund as intergovernmental revenue and pension benefits in the current year. The portion of the Commonwealth's collective net pension liability associated with the Town is \$77,866,611 as of the measurement date.

Benefits Provided

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

At December 31, 2014, the ACRS membership consists of the following:

Active members.....	693
Inactive members.....	307
Retirees and beneficiaries currently receiving benefits.....	<u>623</u>
Total.....	<u><u>1,623</u></u>

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the ACRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2014, was \$9,960,539, 30.24% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The Town's proportionate share of the required contribution was \$9,571,203 which equaled its actual contribution.

Pension Liabilities

The components of the net pension liability of the participating member units at June 30, 2015, were as follows:

Total pension liability.....	\$ 259,203,712
The pension plan's fiduciary net position.....	<u>(135,318,681)</u>
Total net pension liability.....	<u>\$ 123,885,031</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	52.21%

At June 30, 2015, the Town reported a liability of \$119,059,301 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2014, the Town's proportion was 96.12%, which did not change from its proportion measured at December 31, 2013.

Pension Expense

For the year ended June 30, 2015, the Town recognized pension expense of \$10,396,828. At June 30, 2015, the Town reported deferred outflows of resources related to pensions of \$3,320, from the net difference between projected and actual investment earnings on pension plan investments. Since the System performs an actuarial valuation bi-annually, there are no reported differences between expected and actual experience or changes of assumptions as of December 31, 2014.

The deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016.....	\$ 830
2017.....	830
2018.....	830
2019.....	<u>830</u>
Total.....	<u>\$ 3,320</u>

Actuarial Assumptions

The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2014:

Valuation date.....	January 1, 2014
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Level 6.00% increase of contribution amount.
Remaining amortization period.....	18 years for the fresh start base.
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.
Investment rate of return.....	7.50%
Discount rate.....	7.50%
Inflation rate.....	3.00% per year.
Projected salary increases.....	4.00% Ultimate rate, plus the following steps and longevity: <ul style="list-style-type: none"> • Group 1 and 2: 3.50% for the first 7 years of service • Group 4: 0.75% in year 5, 1.75% in year 10, 2.75% in year 15, 3.75% in year 20 and 4.75% in year 25
Cost of living adjustments.....	3.0% of the first \$15,000 of a member's retirement allowance is assumed to be granted every year.
Mortality rates.....	RP-2000 table (sex-distinct) projected using Generational Mortality and scale BB. The healthy employee table is used for actives, and the healthy annuitants table is used for retirees and beneficiaries. For members retired under an Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality used RP-2000 table for healthy annuitants (sex-distinct) projected with Generational Mortality and scale BB, ages set forward 2 years.

Investment policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2014, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Long-Term Expected Asset Allocation
Core bonds.....	0.97%	12.00%
Value-added bonds.....	3.80%	9.20%
Large cap equities.....	4.61%	13.40%
Mid/small cap equities.....	4.85%	3.20%
International equities.....	5.10%	14.80%
Emerging markets equities.....	6.31%	5.50%
Private equity.....	6.55%	9.20%
Real estate.....	3.40%	9.20%
Timber/natural resources.....	3.64%	3.70%
Hedge funds.....	3.64%	11.50%
Cash/portfolio completion.....	0.00%	8.10%

Rate of return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.70%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount (7.50%)	1% Increase (8.50%)
The Town's proportionate share of the net pension liability.....	\$ 146,147,551	\$ 119,059,301	\$ 97,110,544
ACRS total net pension liability.....	\$ 152,066,730	123,885,031	101,050,286

NOTE 13 – 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 copayment 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...	1,139
Current active members.....	<u>1,060</u>
Total.....	<u><u>2,199</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 2015, the Town contributed \$7.7 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 2015, the Town pre-funded future OPEB liabilities in the amount of approximately \$867,877. 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 \$8.4 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.....	\$ 16,421,448
Interest on net OPEB obligation.....	2,006,954
ARC Adjustment.....	<u>(2,152,373)</u>
Annual OPEB cost (expense).....	16,276,029
Contributions made.....	<u>(7,693,448)</u>
Increase in net OPEB obligation.....	8,582,581
Net OPEB obligation - beginning of year.....	<u>45,612,593</u>
Net OPEB obligation - end of year.....	<u><u>\$ 54,195,174</u></u>

Schedule of Employer Contributions

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2015	\$ 16,276,029	47%	\$ 54,195,174
6/30/2014	18,349,451	37%	45,612,593
6/30/2013	17,279,840	39%	34,094,924

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
1/1/2014	\$ 7,042,157	\$ 192,488,324	\$ 185,446,167	4%	\$ 67,939,000	273.0%
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%

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, 2014
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.....	24 years as of January 1, 2014, closed

NOTE 14 – COMMITMENTS

As of June 30, 2015, the Town was entering the initial stages of Phase 3 of the Community Safety Building renovation. Phase 2 had been delayed as a result of unforeseen conditions and the approximate cost of Phase 2 had increased to \$3 million. However, Phase 2 was successfully completed as of March 2015. During 2015, the Town will begin and complete construction 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.

The Town also recently completed the construction and renovation of the Central Fire Station. The expected cost of the project was \$6.3 million, and the project was completed under budget. This completed the renovation of each of the Town's three fire stations.

NOTE 15 – CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2015, 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, 2015, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2015.

NOTE 16 – REVISION/RESTATEMENT OF NET POSITION

Beginning net position of governmental activities, business-type activities and each applicable enterprise fund has been revised to reflect the implementation of GASB Statements #67, #68 and #71 and restated to reclass the OPEB liability. The revised/restated balances are summarized in the following table:

Government-Wide Financial Statements

	06/30/2014 Previously Reported Balances	Revised for Implementation of GASBS #67, #68, & #71	Restated for OPEB Liability	06/30/2014 Revised/Restated Balances
Governmental activities.....	\$ 121,227,496	\$ (111,279,438)	\$ (516,317)	\$ 9,431,741
Business-type activities.....	25,764,806	(6,950,918)	516,317	19,330,205
Total.....	<u>\$ 146,992,302</u>	<u>\$ (118,230,356)</u>	<u>\$ -</u>	<u>\$ 28,761,946</u>

Business-type Activities - Enterprise Funds

	06/30/2014 Previously Reported Balances	Revised for Implementation of GASBS #67, #68, & #71	Restated for OPEB Liability	06/30/2014 Revised/Restated Balances
Water and Sewer.....	\$ 24,455,318	\$ (6,950,918)	\$ -	\$ 17,504,400
Youth Services.....	(80,990)	-	116,964	35,974
Council on Aging.....	139,897	-	21,236	161,133
Ed Burns Arena.....	263,900	-	115,511	379,411
Recreation.....	986,681	-	262,606	1,249,287
Total.....	\$ 25,764,806	\$ (6,950,918)	\$ 516,317	\$ 19,330,205

NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2015, the following GASB pronouncements were implemented:

- GASB Statement #67, *Financial Reporting for Pension Plans*; GASB Statement #68, *Accounting and Financial Reporting for Pensions*; and GASB Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Financial statement changes include the recognition of a net pension liability, pension expense and deferred outflows/inflows of resources depending on the nature of the change each year. The financial statements also recognized a restatement of the beginning net position to reflect the net pension liability at the beginning of the year. The notes to the basic financial statements and the required supplementary information were expanded to include additional required schedules and disclosures.
- GASB Statement #69, *Governmental Combinations and Disposals of Government Operations*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #72, *Fair Value Measurement and Application*, which is required to be implemented in 2016.
- The GASB issued Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which is required to be implemented in 2017.
- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.

- The GASB issued Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in 2016.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.

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

Required Supplementary Information

General Fund Budgetary Comparison Schedule

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

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

YEAR ENDED JUNE 30, 2015

	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.....	\$ -	\$ 103,750,939	\$ 103,750,939	\$ 103,750,939
Tax liens.....	-	-	-	-
Motor vehicle excise taxes.....	-	3,776,000	3,776,000	3,776,000
Hotel/motel tax.....	-	275,000	275,000	275,000
Meals tax.....	-	400,000	400,000	400,000
Intergovernmental.....	-	20,295,434	20,295,434	20,295,434
Departmental and other.....	-	4,049,842	4,049,842	4,049,842
Investment income.....	-	40,000	40,000	40,000
TOTAL REVENUES.....	-	132,587,215	132,587,215	132,587,215
EXPENDITURES:				
Current:				
General government.....	456,497	5,455,163	5,911,660	5,049,859
Public safety.....	87,426	14,636,568	14,723,994	14,974,958
Education.....	3,295,131	54,518,583	57,813,714	57,813,714
Public works.....	414,399	8,616,065	9,030,464	10,180,916
Community development.....	8,856	705,467	714,323	741,209
Human services.....	1,296	926,722	928,018	1,104,469
Library.....	8,578	2,186,865	2,195,443	2,109,041
Culture and recreation.....	-	17,427	17,427	7,485
Pension benefits.....	-	7,983,241	7,983,241	8,643,368
Property and liability insurance.....	-	325,625	325,625	325,625
Employee benefits.....	69,039	15,741,233	15,810,272	14,502,829
State and county charges.....	-	3,077,946	3,077,946	3,077,946
Debt service:				
Principal.....	148,408	6,628,830	6,777,238	6,939,956
Interest.....	282,435	1,735,228	2,017,663	1,900,089
TOTAL EXPENDITURES.....	4,772,065	122,554,963	127,327,028	127,371,464
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(4,772,065)	10,032,252	5,260,187	5,215,751
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds.....	-	-	-	-
Transfers in.....	-	-	-	486,092
Transfers out.....	-	(12,925,177)	(12,925,177)	(13,366,834)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(12,925,177)	(12,925,177)	(12,880,742)
NET CHANGE IN FUND BALANCE.....	(4,772,065)	(2,892,925)	(7,664,990)	(7,664,991)
BUDGETARY FUND BALANCE, Beginning of year.....	18,122,913	18,122,913	18,122,913	18,122,913
BUDGETARY FUND BALANCE, End of year.....	\$ 13,350,848	\$ 15,229,988	\$ 10,457,923	\$ 10,457,922

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 104,453,047	\$ -	\$ 702,108
574,342	-	574,342
4,668,133	-	892,133
330,739	-	55,739
401,870	-	1,870
20,446,362	-	150,928
4,437,506	-	387,664
96,345	-	56,345
135,408,344	-	2,821,129
4,382,354	451,790	215,715
14,931,323	23,645	19,990
54,716,006	2,848,327	249,381
10,331,426	261,130	(411,640)
702,159	-	39,050
1,084,361	2,115	17,993
2,087,496	1,604	19,941
4,206	2,140	1,139
8,639,027	-	4,341
309,399	1,818	14,408
14,319,250	50,146	133,433
3,077,899	-	47
6,939,956	-	-
1,323,746	576,343	-
122,848,608	4,219,058	303,798
12,559,736	(4,219,058)	3,124,927
910,686	-	910,686
2,136,558	-	1,650,466
(13,366,834)	-	-
(10,319,590)	-	2,561,152
2,240,146	(4,219,058)	5,686,079
18,122,913	-	-
\$ 20,363,059	\$ (4,219,058)	\$ 5,686,079

Pension Plan Schedules Retirement System

The Pension Plan's Schedule of Changes in the Net Pension Liability presents multi-year trend information on the net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information on the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS
ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014
Total pension liability:	
Service cost.....	\$ 4,744,410
Interest.....	18,685,017
Changes in benefit terms.....	-
Differences between expected and actual experience.....	-
Changes in assumptions.....	-
Benefit payments.....	(17,126,706)
Net change in total pension liability.....	6,302,721
Total pension liability, beginning.....	252,695,991
Total pension liability, ending (a).....	\$ 258,998,712
Plan fiduciary net position:	
Employer contributions.....	\$ 9,993,280
Member contributions.....	3,321,267
Net investment income (loss).....	9,583,706
Retirement benefits and refunds.....	(17,126,706)
Administrative expenses.....	(295,509)
Net increase (decrease) in fiduciary net position.....	5,476,038
Fiduciary net position at beginning of year.....	129,637,643
Fiduciary net position at end of year (b).....	\$ 135,113,681
Net pension liability - ending (a) - (b).....	\$ 123,885,031
Plan fiduciary net position as a percentage of the total pension liability.....	52.17%
Covered-employee payroll (*).....	\$ 32,938,880
Net pension liability as a percentage of covered-employee payroll.....	376.11%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for
which information is available.

*Covered employee payroll as reported in the January 1, 2014 funding
valuation report.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS
ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014
Actuarially determined contribution (a).....	\$ 9,960,539
Contributions in relation to the actuarially determined contribution.....	(9,960,539)
Contribution deficiency (excess).....	\$ -
Covered-employee payroll (*).....	\$ 32,938,880
Contributions as a percentage of covered- employee payroll.....	30.24%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

(a) Based on the results of the January 1, 2012 actuarial
valuation (including assumptions and methods) which
determined budgeted appropriations for fiscal 2015.

*Covered employee payroll as reported in the January 1, 2014,
funding valuation report.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURN
ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM

December 31,
2014

Annual money-weighted rate of return, net of investment expense.....	6.70%
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Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

The annual money-weighted rate of return has been calculated by
the Pension Reserves Investment Management Board (PRIM).

See notes to required supplementary information.

Pension Plan Schedules – Town

The Schedule of the Town's Proportionate Share of the Net Pension Liability presents multi-year trend information on the Town's net pension liability and related ratios.

The Schedule of the Town's Contributions presents multi-year trend information on the Town's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Town along with related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014
Town's proportion of the net pension liability (asset).....	96.12%
Town's proportionate share of the net pension liability (asset)..... \$	119,059,301
Town's covered employee payroll..... \$	31,699,372
Net pension liability as a percentage of covered-employee payroll.....	375.59%
Plan fiduciary net position as a percentage of the total pension liability.....	52.17%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for
which information is available.

See notes to required supplementary information.

**SCHEDULE OF TOWN'S CONTRIBUTIONS
ARLINGTON CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014
Actuarially determined contribution (a).....	\$ 9,571,203
Contributions in relation to the actuarially determined contribution.....	<u>(9,571,203)</u>
Contribution deficiency (excess).....	<u>\$ -</u>
Covered-employee payroll	\$ 31,699,372
Contributions as a percentage of covered- employee payroll.....	30.19%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

(a) Based on the results of the January 1, 2014 actuarial
valuation (including assumptions and methods) which
determined budgeted appropriations for 2015.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS
OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

<u>Year</u>	<u>Commonwealth's 100% Share of the Net Pension Liability Associated with the Town</u>		<u>Town's Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
2015	\$	77,866,611	\$ 5,409,767	61.64%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for which information is available.

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)
1/1/2014	\$ 7,042,157	\$ 192,488,324	\$ 185,446,167	4%	\$ 67,939,000	273.0%
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
\$ 6/30/2015	\$ 16,421,448	\$ 7,693,448	47%
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%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	January 1, 2014
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.....	24 years as of January 1, 2014, closed
Asset valuation method.....	Market value of assets adjusted by receivables and payables

Actuarial Assumptions:

Investment rate of return.....	4.00%
Medical/drug cost trend rate.....	5.00%-9.00%

Plan Membership:

Current retirees, beneficiaries, and dependents...	1,139
Current active members.....	<u>1,060</u>
Total.....	<u><u>2,199</u></u>

See notes to required supplementary information.

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

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

The majority of the Town's appropriations are non-continuing, which lapse at the end of each 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 2015 original budget includes approximately \$135.5 million in current year authorized appropriations and other amounts to be raised and \$4.8 million in encumbrances and appropriations were carried over from previous years. During 2015, the Town's overall budget was increased by approximately \$486,000.

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, 2015, is presented as follows:

Net change in fund balance, budgetary basis.....	\$ 2,240,146
<u>Perspective differences:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	4,421,145
Activity of health insurance and municipal building insurance trust recorded in the general fund for GAAP.....	(902,809)
<u>Basis of accounting differences:</u>	
Recognition of tax refunds payable.....	(97,000)
Recognition of expenditures on modified accrual basis.....	153,621
Recognition of revenue for on-behalf payment.....	5,409,767
Recognition of expenditure for on-behalf payment.....	<u>(5,409,767)</u>
Net change in fund balance, GAAP basis.....	\$ <u>5,815,103</u>

C. Appropriation Deficits

General fund expenditures exceeded budgeted appropriations for public works for snow and ice removal. The Town is allowed to overspend the budget for the removal of snow and ice and to raise the deficit in the subsequent year.

NOTE B – PENSION PLAN***Pension Plan Schedules – Retirement System*****A. Schedule of Changes in the Net Pension Liability and Related Ratios**

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the systems total pension liability, changes in the systems net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

Since the retirement system performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms, differences between expected and actual experience and changes in assumptions as of December 31, 2014.

B. Schedule of Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The total appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The pension fund appropriations are allocated amongst employers based on covered payroll.

C. Schedule of Investment Return

The money weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

Pension Plan Schedules - Town**A. Schedule of the Town's Proportionate Share of the Net Pension Liability**

The Schedule of the Town's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

B. Schedule of Town's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on covered payroll.

C. Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

D. Changes in Assumptions – None**E. Changes in Plan Provisions - None**

NOTE C – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Town administers a single-employer defined benefit healthcare plan (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.



111 Huntington Avenue
Boston, MA 02199
Telephone: 617-239-0100
Fax: 617-227-4420
www.lockelord.com

(Date of Delivery)

Stephen Gilligan, Treasurer
Town of Arlington
Arlington, Massachusetts

\$25,660,000
Town of Arlington, Massachusetts
General Obligation Municipal Purpose Loan of 2016 Bonds
Dated November 9, 2016

We have acted as bond counsel to the Town of Arlington, Massachusetts (the “Town”) in connection with the issuance by the Town of the above-referenced bonds (the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Town contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town, without limitation as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws, and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Town with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Town

has covenanted to comply with all such requirements. Failure by the Town to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

LOCKE LORD LLP

**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Town of Arlington, Massachusetts (the “Issuer”) in connection with the issuance of its \$25,660,000 General Obligation Municipal Purpose Loan of 2016 Bonds, dated November 9, 2016 (collectively, the “Bonds”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Obligated Person” shall mean the Issuer.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated October 26, 2016 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth. If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give notice, in accordance with the provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

7. Modifications to rights of the Owners of the Bonds, if material.
 8. Bond calls, if material, and tender offers.
 9. Defeasances.
 10. Release, substitution or sale of property securing repayment of the Bonds, if material.
 11. Rating changes.
 12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person.*
 13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
 14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: November 9, 2016

TOWN OF ARLINGTON,
MASSACHUSETTS

By _____
Treasurer

Selectmen

[EXHIBIT A: Filing Information for the MSRB]
[EXHIBIT B: Form of Notice of Failure to File Annual Report]