

***TOWN OF BROOKLINE, MASSACHUSETTS***

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

***FISCAL YEAR ENDED JUNE 30, 2004***

TOWN OF BROOKLINE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2004

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# TOWN of BROOKLINE

## *Massachusetts*

### BOARD OF SELECTMEN

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Town Administrator

333 WASHINGTON STREET  
BROOKLINE, MASSACHUSETTS 02445  
TEL. (617) 730-2200  
FAX: (617) 730-2054  
[www.townofbrooklinemass.com](http://www.townofbrooklinemass.com)

### ***Letter of Transmittal***

November 24, 2004

To the Honorable Members of the Board of Selectmen and Citizens of the Town of Brookline:

State and Federal regulations require the Town of Brookline to publish at the end of each fiscal year a complete set of financial statements in conformity with accounting principals generally accepted in the United States of America (GAAP) that are audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Report on the Examination of the Basic Financial Statements of the Town of Brookline, Massachusetts, for the fiscal year ending June 30, 2004 for your review.

This report consists of management's representations concerning the finances of the Town of Brookline. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Brookline has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Brookline's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Brookline's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Brookline's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Brookline for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion the Town of Brookline's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Brookline was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Brookline's separately issued Reports on Federal Award Programs also known as the Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The Town of Brookline's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The Town of Brookline was founded in 1630 and incorporated in 1705. It is located in Norfolk County and borders on Boston to the east, north and south, and Newton to the west. It is approximately 6.8 square miles in area and, according to the 2000 federal census, has a population of 57,107 persons.

## **Municipal Services**

The Town provides general governmental services within its boundaries including:

- public education in grades kindergarten through twelve to over 6,000 students
- police and fire protection including building inspection and animal control services
- highway and roadway maintenance including snow and ice control as well as traffic control
- street and sidewalk maintenance
- water and sewer services
- refuse collection services
- parks and recreational services including a golf course and a swimming pool
- library services
- senior citizen services and programs including a newly constructed senior center building

## **Governing Bodies and Officers**

The Town operates under a Board of Selectmen/Town Meeting form of government. Local legislative decisions are made by a representative town meeting consisting of 251 members and implemented by a five-member Board of Selectmen. Day-to-day administrative authority is vested in the Town Administrator who is appointed by the Board of Selectmen. The Town Administrator is the chief operating officer and is responsible for the supervision and the administration of all municipal departments except for the School Department.

A nine person elected school committee is responsible for the administration of all local school affairs. There is also a nine member elected Board of Library Trustees

A three person Board of Assessors, who are appointed by the Board of selectmen, are responsible for the assessment of local property taxes.

## **Financial and Management Systems**

The Town annually prepares and updates a five-year financial forecast, a six-year capital improvement program, and an annual operating budget. These documents are prepared by the Town Administrator's office in conjunction with the Finance Department, reviewed by the Board of Selectmen and Advisory (Finance) Committee, and submitted to Town Meeting for adoption. The Board of Selectmen annually establishes financial policies that guide the preparation of the capital and operating budget plan.

The five-year forecast, submitted in the fall of each year, is a comprehensive review of economic trends on a local, regional and national basis. It analyzes major municipal fund expenditure projections based upon service program assumptions and develops revenue estimates based on economic conditions and prior trends. Based upon these projections and analyses, the forecast establishes a focal point each fall for the Board of Selectmen to establish a series of revenue and expenditure policies that guide the formation of the capital and operating budgets.

The six-year capital improvement program (CIP), submitted in the fall of each year as well, comprehensively identifies municipal infrastructure and improvement needs by detailing each project, including project description, cost, potential source(s) of funding, priority need, impact upon the operating budget, and ongoing capital maintenance costs. After public and Commission/Committee hearings, the Board of Selectmen adopts an annual funding strategy, which is predicated upon the Town's formal policy of dedicating 5.5% of the prior year's net

revenue, plus free cash, to the CIP. The annual update allows decision makers and voters the opportunity to regularly analyze and decide upon priority project funding.

The annual operating budget submitted in February of each year, follows a program management format that details source and use recommendations for all funds; details departmental missions, goals, objectives and annual work plans; and details performance measurement and financial management criteria for each budget cycle. The budget maintains consistency with the Selectmen’s financial management standards and policies. The budget funding sources include the general fund, comprised of revenues from the property tax, auto and hotel tax, user fee receipts, grants in aid, trust income and miscellaneous program income; the enterprise funds for the water and sewer operations and the golf course; and the Recreation Revolving Fund. These latter funds are intended to be self-supporting through user-based charges.

**Principal Executive Officers**

<u>Office</u>	<u>Name</u>	<u>Term</u>	<u>Term Exp.</u>
Town Administrator	Richard J. Kelliher	Appointed - 3 years	2006
Deputy Town Administrator	Sean Cronin	Appointed - 1 year	2005
Assistant Town Administrator	Jennifer Y. Grams	Appointed - 1 year	2005
Finance Director and Treasurer	Stephen Cirillo	Appointed - 1 year	2005
Town Comptroller	Judith Ann Haupin	Appointed - 1 year	2005
Town Clerk	Patrick J. Ward	Elected - 3 years	2006
Town Counsel	David Lee Turner	Appointed - 3 years	2006

**Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Brookline operates.

**Tax Base/Local economy.**

Brookline is bordered by the City of Boston. It has both urban and suburban features and is characterized by comparatively high property values. Almost 70% of the general fund revenues are financed by the annual taxes on property. The remaining revenues come from locally derived receipts (approximately 11%), State aid (approximately 10%), transfers from other non-general funds (approximately 5%) and other available funds (approximately 3% to 4%).

Residential property comprises 90.9% of the full and fair value of the property in Brookline and they are responsible for 84.1% of the taxes. The Town has been adopting the tax classification authorization that permits it to set two separate tax rates. The current tax rates are:

Residential	\$ 10.63 per thousand
Commercial	\$ 17.28 per thousand

A combination of significant new development and a strong real estate market has contributed to a steadily growing tax base. The tax base (current market valuation of \$10.5 billion) has increased a significant 75.4% since 1998 reflecting strong development and real estate appreciation. The town’s tax base is now among the five largest in Massachusetts. Building permit activity continues at a strong pace, having averaged approximately \$27.1 million annually over the past five years. Per capita market value of \$184,088 is also among the highest in the state as are the per capita personal income level, which is at \$44,327 according to the 2000 census.

**Long-term financial planning.** The Town of Brookline has identified approximately \$74 million in capital improvements needed over the next 6 years. Large components of this total include the following:

- ✚ the mandatory capping of the former landfill site (\$8.9 million).
- ✚ the Beacon street reconstruction project (\$9.5 million), which is partially offset by an anticipated State grant of approximately \$6.9 million. Upgrade and maintenance of our waste water system (\$4.7 million), which will be borne by the water and sewer rates rather than the tax levy.
- ✚ anticipated school projects (\$8.4 million). While this is a relatively lower sum of money than has been expended over the past 6 to 7 years, it reflects a very different environment than in the past when School facilities had been neglected and allowed to deteriorate. In addition, a number of major school projects have recently been undertaken, including the High School renovation (\$44.8 million), the Baker School renovation (\$10.5 million), the Lincoln School renovation (\$13 million), and the Lawrence School renovation (\$16.1 million).
- ✚ the Town Hall and Health Building renovations, currently estimated to cost \$10.5 million and \$4.1 million, respectively.
- ✚ the purchase of the former state-owned Fisher Hill reservoir for transformation into an active / passive open space (\$1.35 million)
- ✚ the Town's share of the \$72 million - \$90 million Muddy River project, a joint effort between the federal government, the state government, the City of Boston, and Brookline.

On the Town's operating side, the current state fiscal problems will likely impact the delivery of Town services. Similar to what happened in both FY03 and FY04, State aid will likely be reduced or level-funded in the next couple years, while the State balances its significant structural budget deficit. This will leave the Town in a position of having to replace the revenue lost from the state and rely increasingly on local revenues to cover the increasing cost of providing services. The Town will have to continue to review all current and potential sources of revenue and seek ways to consolidate or find optional ways to continue to deliver a high level of service at lower costs.

The Town continues to manage its financial affairs in prudent manner. It has maintained its Aaa bond rating even with the fiscal crisis our State is currently experiencing. It has done so by incorporating long range planning tools such as a five-year forecast and a six-year Capital Improvement Program; establishing rainy day accounts and budgeting stabilization reserves; prioritizing spending plans and identifying discretionary spending; incorporating pay-as-you-go financing strategies; developing long-term planning for all liabilities including pension and insurance reserves; and investing in technology to make our operations more efficient.

Brookline has also enhanced its revenue flexibility by establishing enterprise funds for certain operations. This has allowed the Town to shift one hundred percent of the operating cost and capital improvements to the users of certain services so that little or no tax support goes towards providing these services. This includes the water, sewer and municipal golf course operations. By doing so, the Town is able to provide the maximum tax dollars available to all other services.

**Cash management policies and practices.** The Town of Brookline issues property tax bills four times a year and derives approximately 70% of its annual revenue from this source. These quarterly billings result in a reasonably steady cash flow throughout the year. Every effort is made to put any reserve funds to work. This has become more challenging of late due to the historically low rate of return for most traditional investment vehicles. For example, Certificates of Deposit, once an option for surplus operational funds, no longer make sense when fully liquid money market funds have a higher return. Nevertheless, the Town's investment policy remains conservative with particular attention to the constraints of safety and liquidity while attempting to secure the highest yield available with those constraints.

On a daily basis, the treasurer automatically transfers excess funds out of all depository accounts (9) into a collateralized repurchase account with the same depository bank. Frequently (depending on level of receipts) this money is transferred into our account at the Massachusetts Municipal Depository Trust (MMDT) that has offered a higher rate of return over the past year. This is the State Treasurer's pool of invested funds managed currently by Fidelity Investments. The Trust's investment policy requires that these funds be invested in short term fixed income securities (both government and corporate) with maturities not to exceed 90 days. Our funds in this account are entirely liquid.

The Town operates on an aggregate cash basis and invests in the same fashion. Some surplus money, primarily associated with funds outside of the general fund, represent fund reserves that will not be spent in the immediate future. Some of these funds have been used to purchase various obligations of the U.S. Treasury, short-term commercial paper, and corporate bonds. The maturities of these investments range from 90 days to 6 years with an average maturity of 3.2 years.

Finally, a significant portion of the Town's non-expendable trust funds are currently managed by a professional and nationally recognized investment management firm. Each of these funds has a distinct purpose and, therefore, the mix of holdings in cash, fixed income securities, and equities will vary by fund. The amount of annual income desired and the timing of disbursements generally govern the mix.

In a year when money market deposits are yielding in the 1.5 percent range, the bond funds and U.S. Treasury and corporate debt obligations have returned or promise future yields as follows:

Short term U.S. Treasury bond fund	3.1 percent annualized
U.S. Treasuries average current yield	5.8 percent
Corporate bonds average current yield	6.3 percent

In addition to the investment income from the fixed investments, there is appreciation (or depreciation) in their market value as market conditions change. This year, to date, over 92% of the individual securities purchased have appreciated since purchased. There is no guarantee, however, that this trend will continue. Nor can it be determined with certainty that these securities will or will not be held to maturity.

**Risk Management.** The Town of Brookline manages its risk through a combination of self-insured programs and premium based coverage with commercial insurance carriers. Workers compensation, unemployment and municipal building activities are self-insured while exposures to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters are covered through policies purchased from commercial carriers. Various control techniques including employee accident prevention training have been performed to minimize accident-related losses. Worker's compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. Third-party coverage is maintained for individual workers' compensation claims in excess of \$100,000. In addition, the Town administers an insurance reserve fund to help offset the annual cost of its risk management program. Additional information on the Town of Brookline's risk management activity can be found in the notes to the financial statements.

**Pension and other post employment benefits.** The Town of Brookline contributes to the Brookline Contributory Retirement System, a cost sharing, multiple-employer defined benefit pension plan administered by the Brookline Contributory Retirement board. Substantially all Town employees are members of the System, with the exception of public school teachers and certain school administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the Town of Brookline must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a requirement by law, the Town of Brookline fully funds each year's annual required contribution to the pension plan as determined by the actuary. The System has succeeded in funding 66.7% of the present value of the projected benefits earned by employees. The remaining unfunded liability is being systematically funded over 20 years as part of the annual required contribution calculated by the actuary.

The Town of Brookline also provides postretirement health care benefits for certain retirees and their dependents. There were 1,254 retired employees and/or spouses receiving these benefits, which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the Town of Brookline's pension and post employment benefits can be found in the notes to the basic financial statements.

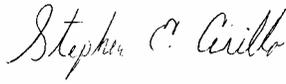
**Acknowledgements.**

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the town administrator and finance departments. We would like to express our appreciation to all the members of the department who assisted and contributed to the preparation of this report. Credit should also be given to the Board of Selectmen for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Brookline's finances.

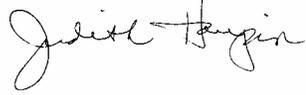
Respectfully submitted,



Richard J. Kelliher  
Town Administrator

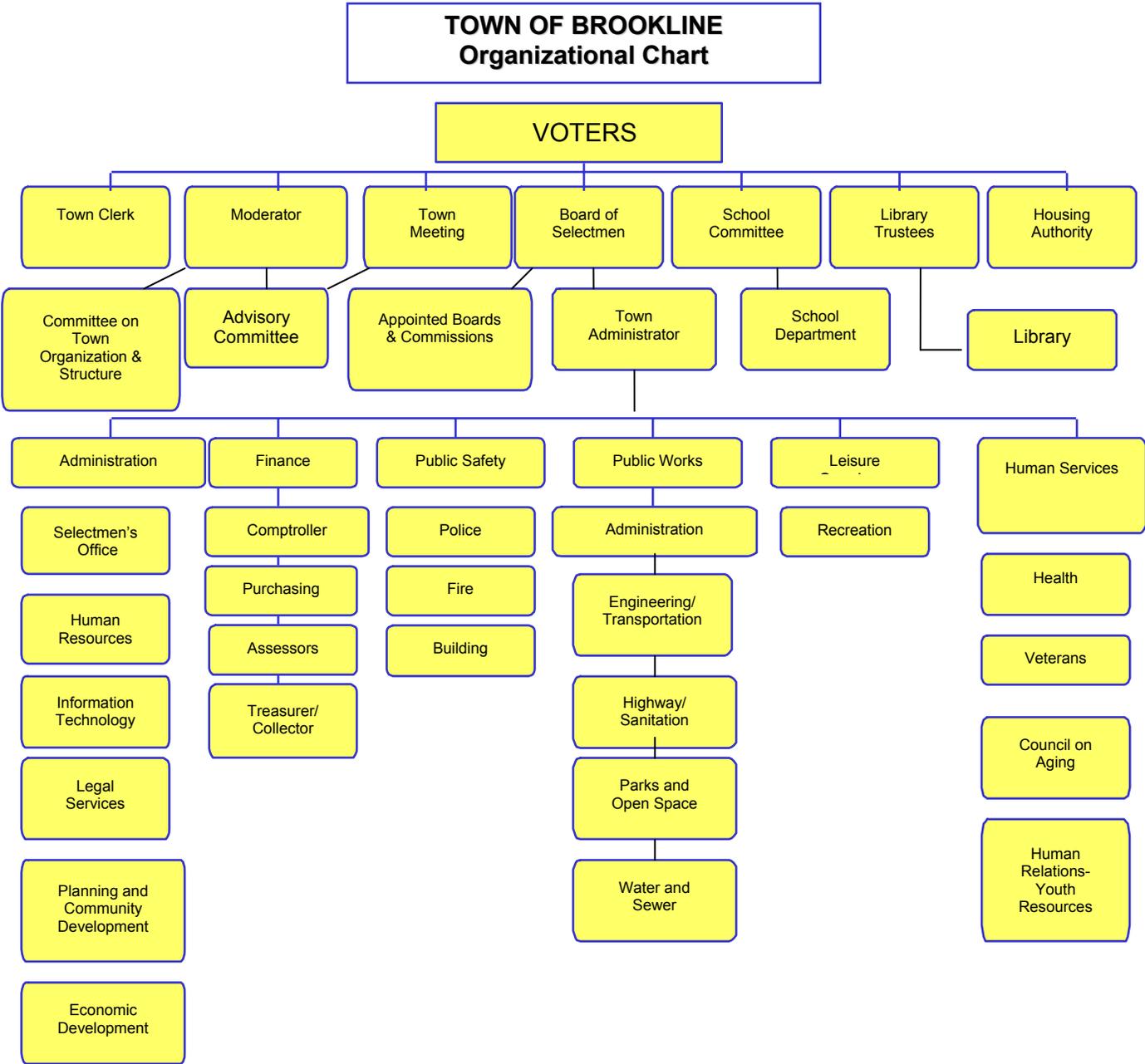


Stephen Cirillo  
Finance Director



Judith A. Haupin  
Town Comptroller

# Organizational Charts



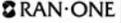
**BOARDS/COMMISSIONS APPOINTED  
BY THE BOARD OF SELECTMEN**

Planning/ Development	Administration and Finance	Public Works	Cultural/ Leisure Services	Human Services
Board of Appeals	Board of Assessors	Conservation Commission	Brookline Access Television	Advisory Council on Public Health
Board of Examiners	Personnel Board	Solid Waste Advisory Board	Celebrations Committee	Cable TV Monitoring Committee
Building Commission	Registrars of Voters	Transportation Board	Council for the Arts and Humanities	Commission for the Disabled
Economic Develop. Advisory Board	Retirement Board	Tree Planting Committee	Park and Recreation Commission	Commission for Women
Housing Advisory Board		Trustees of Walnut Hills Cemetery		Council on Aging
Planning Board				Holocaust Memorial Committee
Preservation Commission				Human Relations Youth Resources



323 New Boston Street  
Woburn, MA 01801  
T 781 937 9322  
F 781 937 9474

[www.powersandsullivan.com](http://www.powersandsullivan.com)

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## Independent Auditors' Report

To the Honorable Board of Selectmen  
Town of Brookline, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2004 (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2003), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Brookline, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of June 30, 2004 (except for the Brookline Contributory Retirement System which is as of December 31, 2003), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 1, the Town restated its beginning governmental net assets to fully record infrastructure capital assets.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2004, on our consideration of the Town of Brookline, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Pwerc + Sullivan".

November 24, 2004

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the Town of Brookline, Massachusetts, we offer readers of the Town of Brookline financial statements this narrative overview and analysis of the financial activities of the Town of Brookline for the fiscal year ended June 30, 2004. The Town must comply with new financial reporting requirements issued under Governmental Accounting Standards Board Statement #34, Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments, for the fiscal year ending June 30, 2004. Management's discussion and analysis are part of the new requirements.

The Governmental Accounting Standards Board (GASB) is the authoritative standards setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principals (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establishing consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislator and others) can assess the financial condition of one government compared to others.

Government must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. If the Town of Brookline financial statements have significant departments from GAAP the independent auditor's may issue a qualified opinion or a disclaimer (where no opinion is given). These types of opinions may have an adverse effect on the Town's bond rating and our ability to borrow money at favorable interest rates. If the Town of Brookline did not comply with GASB statement number 34 we would most likely receive a disclaimer of opinion. The Town of Brookline has enjoyed an unqualified opinion on its financial statements since the fiscal year ended June 30, 1995.

### **Financial Highlights**

- ❖ The assets of the Town of Brookline exceeded its liabilities at the close of business of the most recent fiscal year by \$209,402,149.
- ❖ As of June 30, 2004 Brookline's fund based governmental funds reported combined ending fund balances of \$54.5 million, a decrease of \$3.3 million from the previous year. Activities in the capital project funds, the special revenue funds and the permanent funds resulted in a decrease in fund balance of \$1.8 million mainly due to increased expenditures on various capital projects. The general fund operations resulted in a \$1.5 million decrease in fund balance or approximately 1.1% of the general fund revenue originally budgeted.
- ❖ At the end of the current year, unreserved fund balance for the general fund was \$12.3 million or 7.6% of the fiscal 2004 actual general fund expenditures.
- ❖ Brookline's debt decreased by \$960,083 during the year. This is a direct result of efforts made to maintain or reduce our commitment to debt service to bring us in line with our capital financing policies as described in the Town's annual financial plan and capital improvement project budget.

### ***Overview of the Financial Statements***

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

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this

statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, community development, culture and recreation, pension benefits, property and liability insurance, employee benefits, claims and judgments, interest and state and county charges. The business-type activities include water, sewer and golf activities.

The government-wide financial statements include not only the Town of Brookline itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town of Brookline is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental 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 Brookline adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The Town maintains two types of propriety funds.

*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, sewer and golf activities.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among various functions. The Town uses internal service funds to account for health insurance activities, workers' compensation benefits and municipal insurance. Because these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the progress in funding its obligation to provide pension benefits to its employees.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. As shown below, governmental assets exceeded liabilities by \$185,647,128 at the close of FY2004.

Net assets of \$125,270,581 reflect the Town’s investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$22,441,837 represents resources that are subject to external restrictions on expenditures. The remaining balance of *unrestricted net assets* of \$37,934,710 may be used to meet the government’s ongoing obligations to citizens and creditors.

At this point it is important to note that in accordance with the requirements of Massachusetts finance laws and regulations, all of the unrestricted net assets are required to be reserved for designated purposes except for \$4,606,536, which is the amount classified as “available funds” (also known as “free cash”) by the Massachusetts Department of Revenue’s Division of Local Services. The remaining unrestricted net assets are either already committed for expenditure or required to be retained for other purposes.

### Town of Brookline – Governmental Activities Net Assets

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets. Net assets increased by \$9,694,534 during the fiscal year. Substantially, all of the increase can be directly attributed to the Town’s objective to maintain its strong financial position, balancing its budget and the recognition of capital grant revenue used to acquire capital assets.

	<u>FY 2004</u> <u>Governmental</u> <u>Activities</u>	<u>FY 2003</u> <u>Governmental</u> <u>Activities</u>	<u>FY 2002</u> <u>Governmental</u> <u>Activities</u>
<b>Assets:</b>			
Current assets.....	\$ 97,714,588	\$ 96,467,107	\$ 88,138,427
Noncurrent assets (excluding capital).....	43,729,000	37,853,000	41,844,000
Capital assets.....	173,442,564	161,659,701	156,578,318
<b>Total assets.....</b>	<b>314,886,152</b>	<b>295,979,808</b>	<b>286,560,745</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	21,464,978	15,499,828	14,024,438
Noncurrent liabilities (excluding debt).....	14,756,314	13,634,967	13,295,464
Current debt.....	17,999,130	20,945,891	26,302,000
Noncurrent debt.....	75,018,602	75,368,109	69,269,000
<b>Total liabilities.....</b>	<b>129,239,024</b>	<b>125,448,795</b>	<b>122,890,902</b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	125,270,581	116,953,871	113,967,152
Restricted.....	22,441,837	20,606,066	19,036,762
Unrestricted.....	37,934,710	32,971,076	30,665,929
<b>Total net assets.....</b>	<b>185,647,128</b>	<b>170,531,013</b>	<b>163,669,843</b>

Net assets from the Town's governmental activities increased by over \$9,600,000 during fiscal 2004. Key elements of the change are as follows:

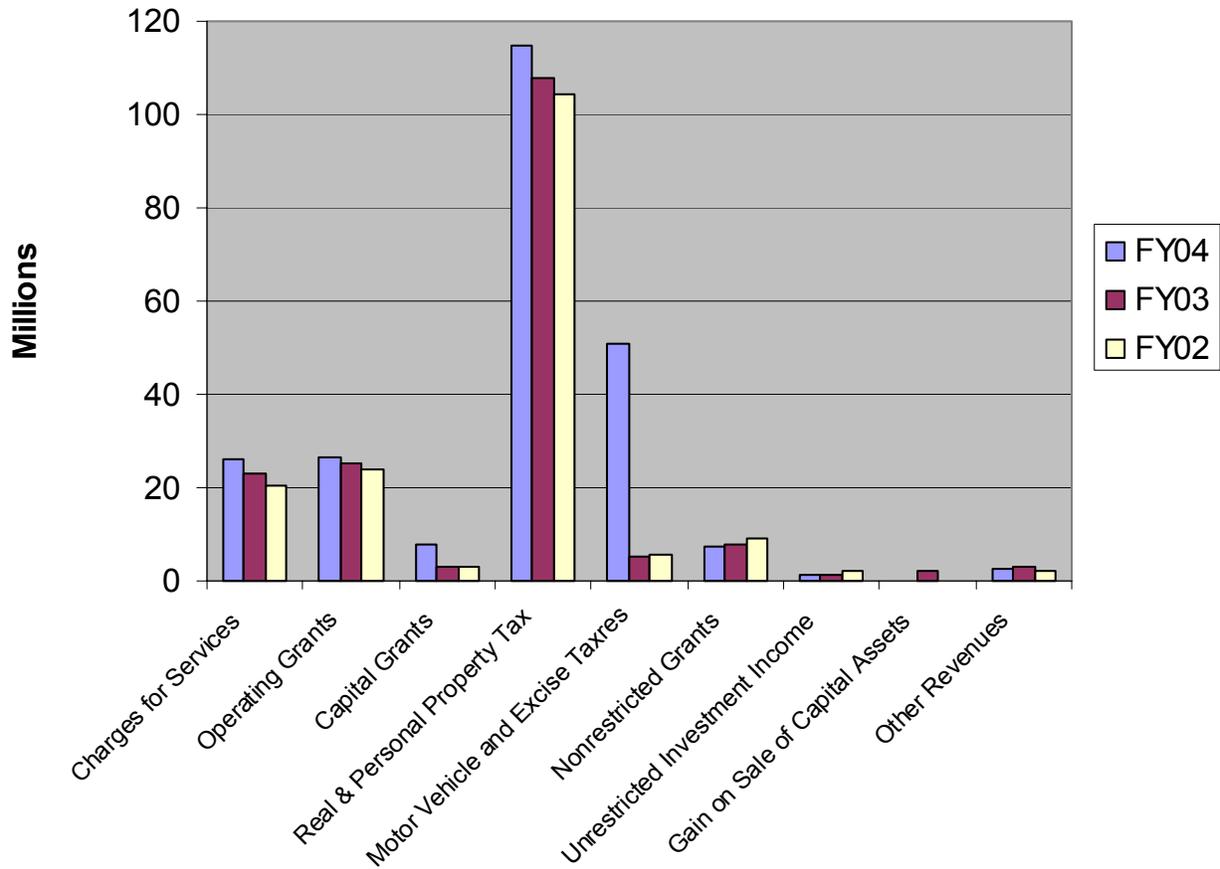
	<b>FY 2004</b>	<b>FY 2003</b>	<b>FY 2002</b>
	<b>Governmental</b>	<b>Governmental</b>	<b>Governmental</b>
	<b>Activities</b>	<b>Activities</b>	<b>Activities</b>
<b>Program revenues:</b>			
Charges for services.....	26,054,700	23,188,938	20,640,992
Operating grants and contributions.....	26,501,444	25,418,590	23,880,320
Capital grants and contributions.....	8,017,139	2,958,587	2,995,795
<b>General Revenues:</b>			
Real estate and personal property taxes....	114,633,777	108,027,899	104,208,826
Motor vehicle and other excise taxes.....	5,083,769	5,207,592	5,524,621
Nonrestricted grants and contributions.....	7,541,759	7,921,606	9,096,592
Unrestricted investment income.....	1,341,412	1,232,498	2,045,468
Gain on sale of capital assets.....	-	2,002,030	-
Other revenues.....	2,550,809	3,155,170	2,387,191
<b>Total revenues.....</b>	<b>191,724,809</b>	<b>179,112,910</b>	<b>170,779,805</b>
<b>Expenses:</b>			
General Government.....	8,974,389	7,966,535	5,868,007
Public Safety.....	31,182,998	27,923,985	29,146,112
Education.....	65,445,062	68,918,769	64,479,785
Public Works.....	20,060,524	13,895,615	15,854,353
Community and Economic Development...	1,420,252	1,604,784	1,815,790
Human Services.....	3,278,892	3,046,882	2,039,103
Leisure Services.....	6,467,153	4,504,225	3,678,431
Pension benefits.....	17,123,869	15,965,051	14,453,126
Property and liability insurance.....	457,000	107,400	944,000
Employee benefits.....	20,568,318	19,922,012	15,675,354
Interest.....	3,635,472	4,715,797	4,214,697
Call premium of refunded bonds.....	-	185,000	-
State and county charges.....	5,460,231	5,638,706	5,741,060
<b>Total expenses.....</b>	<b>184,074,160</b>	<b>174,394,761</b>	<b>163,909,818</b>
<b>Transfers In(Out).....</b>	<b>2,043,885</b>	<b>2,143,021</b>	<b>2,209,240</b>
<b>Change in net assets.....</b>	<b>\$ 9,694,534</b>	<b>\$ 6,861,170</b>	<b>\$ 9,079,227</b>

A large number of factors contributed to the change in net assets within the governmental activities category.

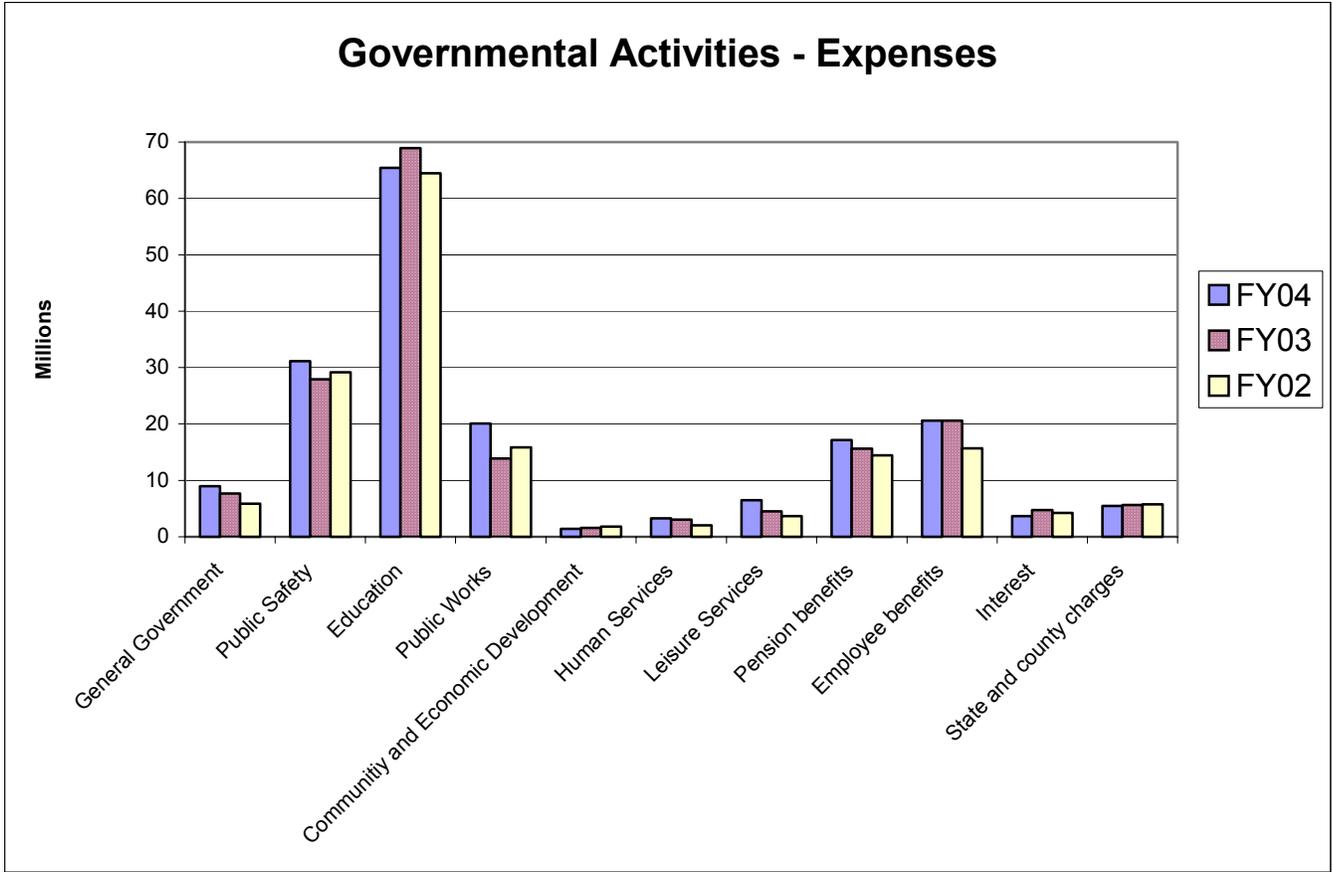
Some of the major items are:

- ❖ A 6.1% increase in property tax revenue - 2.5% from recurring Proposition 2 ½ permitted increases and 3.6% from new additions to the tax rolls.
- ❖ Increases in charges for services revenues were offset by corresponding increases in expenses.
- ❖ \$8.0 in grants related to new capital projects that was used to acquire capital assets.

## Governmental Activities - Revenues



## Governmental Activities - Expenses



### General Fund Budgetary Highlights

There was very little change between the original budget and the final amended budget. The budgetary results mirrored the fund based results. The Town has elected to carryforward encumbrances and appropriations of \$16,827,358.

**Business-type Activities.** Business-type activities contributed \$1,470,491 in increased net assets for the year. Most of this increase, \$1,365,049, resulted from a favorable return from the newly created water and sewer enterprise operation. The remaining increase of \$105,442 came from the Putterham Golf Enterprises operations.

The following table identifies key elements of the enterprise operations:

## Business-type Financial Highlights

	<i>FY 2004</i> <i>Business-type</i> <i>Activities</i>	<i>FY 2003</i> <i>Business-type</i> <i>Activities</i>	<i>FY 2002</i> <i>Business-type</i> <i>Activities</i>
<b>Assets:</b>			
Current assets.....	7,855,409	7,369,090	\$ 7,864,555
Capital assets.....	35,432,589	35,600,111	35,530,039
<b>Total assets.....</b>	<b>\$ 43,287,998</b>	<b>\$ 42,969,201</b>	<b>43,394,594</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	552,489	1,041,859	392,987
Noncurrent liabilities (excluding debt).....	117,785	116,294	114,780
Current debt.....	2,121,957	1,864,627	2,060,518
Noncurrent debt.....	16,740,746	17,661,891	19,306,518
<b>Total liabilities.....</b>	<b>19,532,977</b>	<b>20,684,671</b>	<b>21,874,803</b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	16,569,886	16,073,593	14,163,003
Unrestricted.....	7,185,135	6,210,937	7,356,788
<b>Total net assets.....</b>	<b>23,755,021</b>	<b>22,284,530</b>	<b>21,519,791</b>
<b>Program revenues:</b>			
Charges for services.....	21,521,731	20,829,453	19,889,163
Operating grants and contributions.....	-	-	29,858
Capital grants and contributions.....	536,265	-	-
<b>Total revenues.....</b>	<b>22,057,996</b>	<b>20,829,453</b>	<b>19,919,021</b>
<b>Expenses:</b>			
Golf.....	926,019	1,016,535	864,689
Water and sewer.....	17,617,601	16,905,158	15,578,481
<b>Total expenses.....</b>	<b>18,543,620</b>	<b>17,921,693</b>	<b>16,443,170</b>
<b>Transfers In/(Out).....</b>	<b>(2,043,885)</b>	<b>(2,143,021)</b>	<b>(2,209,240)</b>
<b>Change in net assets.....</b>	<b>\$ 1,470,491</b>	<b>\$ 764,739</b>	<b>\$ 1,266,611</b>

### Capital Asset and Debt Administration

**Capital Assets.** The Town of Brookline's investment in capital assets for its governmental and business type activities as of June 30, 2004 amount to \$208,875,153 (net of depreciation). This investment in capital assets includes land, buildings, improvements to land and buildings, machinery and equipment, vehicles, roads, sidewalks, bridges and water and sewer lines. In FY2004 the Town completed its retroactive reporting of governmental infrastructure as allowed by GASB 34. This resulted in a beginning balance restatement that increased governmental net assets by \$5,421,581.

The total increase in the Town of Brookline's investment in capital assets for the current year was \$11,649,976, including \$6,361,284 for governmental activities and (\$132,309) for business-type activities. The Town's major capital projects relate to school renovations.

Major Capital asset events during the current fiscal year included the following:

- ❖ Over \$8,000,000 was spent, net of insurance proceeds, on the remodeling of the Lawrence School, a project begun in 1999.
- ❖ Over \$1,490,000 was spent on land improvements.
- ❖ Over \$700,000 was spent on water, sewer, wastewater system and surface drainage system construction and replacement.
- ❖ Approximately \$2,200,000 was spent on machinery and equipment.

**Town of Brookline's Capital Assets  
(Net of Depreciation)**

	Governmental		Business –Type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Land	79,727	79,727			79,727	79,727
Construction in Progress	10,781,666				10,277,087	
Land Improvements	10,277,087	9,341,031	998,570	989,544	11,275,657	10,330,575
Buildings	128,607,756	132,312,421	3,157,268	3,246,876	131,765,024	135,559,297
Machinery and Equipment	9,746,373	10,030,300	970,067	1,086,625	10,716,440	11,116,925
Infrastructure	13,949,955	15,317,801	30,306,684	30,242,432	44,256,639	45,560,233
<b>Total</b>	<b>173,442,564</b>	<b>167,081,280</b>	<b>35,432,589</b>	<b>35,565,477</b>	<b>208,875,153</b>	<b>202,646,757</b>

**Long-term Debt.** At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$111,880,435. The entire amount is classified as general obligation debt and is backed by the full faith and credit of the government. Of this amount, \$11,500,000 is in short term notes, and the remaining \$100,380,435 is in outstanding long-term debt. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources. During fiscal 2004, the Town retired long term debt of \$16,295,518 and short term debt of \$3,000,000.

In order to take advantage of favorable interest rates, the Town issued \$8,480,000 of General Obligation Refunding Bonds at an interest rate of 3.22%. The Town has decreased its aggregate debt service payments by approximately \$588,000 and will experience an economic gain of approximately \$494,000. The proceeds were used to defease \$7,985,000 in bonds outstanding.

In addition to the refunding bonds, the Town of Brookline, issued \$6,200,000 in general obligation bonds and \$655,435 in MWRA bonds to finance several capital improvements. Included in these issues were the following:

- ❖ \$5,700,000 in general obligation bonds for school construction.
- ❖ \$500,000 in general obligation bonds for storm drains.
- ❖ \$655,435 in MWRA bonds for wastewater projects.

The enterprise funds have \$18,862,703 in outstanding bonds that is fully supported by the rates and do not rely on a general fund subsidy.

**Requests for Information**

This financial report is designed to provide a general overview of the Town of Brookline'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 Comptroller at Brookline Town Hall, 333 Washington Street, Brookline, Massachusetts 02146.

You are also invited to visit our website at <http://www.town.brookline.ma.us/> .

# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2004

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and short-term investments.....	\$ 75,506,686	\$ 2,114,600	\$ 77,621,286
Investments.....	6,975,369	-	6,975,369
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,218,348	-	1,218,348
Real estate tax deferrals.....	196,889	-	196,889
Tax liens.....	533,482	-	533,482
Motor vehicle excise taxes.....	242,868	-	242,868
User fees.....	151,872	-	151,872
Water and sewer fees.....	-	6,189,235	6,189,235
Departmental and other.....	3,933,680	-	3,933,680
Intergovernmental.....	6,512,160	-	6,512,160
Loans.....	440,812	-	440,812
Tax foreclosures.....	62,656	-	62,656
Internal balances.....	450,000	(450,000)	-
Other assets.....	487,383	-	487,383
Prepaid expenses.....	1,002,383	1,574	1,003,957
<b>NONCURRENT:</b>			
Intergovernmental.....	43,729,000	-	43,729,000
Capital assets, net of accumulated depreciation.....	173,442,564	35,432,589	208,875,153
<b>TOTAL ASSETS.....</b>	<b>314,886,152</b>	<b>43,287,998</b>	<b>358,174,150</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	5,664,446	126,565	5,791,011
Accrued liabilities.....	1,109,031	-	1,109,031
Accrued payroll.....	1,110,455	-	1,110,455
Health claims payable.....	2,200,000	-	2,200,000
Tax refunds payable.....	2,412,000	-	2,412,000
Accrued interest.....	800,148	146,519	946,667
Abandoned property.....	5,997	-	5,997
Other liabilities.....	1,584,198	-	1,584,198
Customer deposits payable.....	520,015	-	520,015
Capital lease obligations.....	195,243	-	195,243
Compensated absences.....	4,681,445	279,405	4,960,850
Workers' compensation.....	1,182,000	-	1,182,000
Bonds and notes payable.....	17,999,130	2,121,957	20,121,087
<b>NONCURRENT:</b>			
Capital lease obligations.....	199,008	-	199,008
Landfill closure.....	9,412,000	-	9,412,000
Compensated absences.....	3,331,306	117,785	3,449,091
Workers' compensation.....	1,814,000	-	1,814,000
Bonds and notes payable.....	75,018,602	16,740,746	91,759,348
<b>TOTAL LIABILITIES.....</b>	<b>129,239,024</b>	<b>19,532,977</b>	<b>148,772,001</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	125,270,581	16,569,886	141,840,467
Restricted for:			
Loans.....	440,812	-	440,812
Permanent funds:			
Expendable.....	3,449,500	-	3,449,500
Nonexpendable.....	835,610	-	835,610
Other purposes.....	17,715,915	-	17,715,915
Unrestricted.....	37,934,710	7,185,135	45,119,845
<b>TOTAL NET ASSETS.....</b>	<b>\$ 185,647,128</b>	<b>\$ 23,755,021</b>	<b>\$ 209,402,149</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 8,974,389	\$ 3,379,824	\$ 147,755	\$ -	\$ (5,446,810)
Public safety.....	31,182,998	8,184,569	476,914	-	(22,521,515)
Education.....	65,445,062	6,858,234	12,316,205	7,837,000	(38,433,623)
Public works.....	20,060,524	2,552,959	544,300	-	(16,963,265)
Community and economic development.....	1,420,252	-	2,661,562	-	1,241,310
Human services.....	3,278,892	11,455	654,316	-	(2,613,121)
Leisure services.....	6,467,153	1,288,952	101,601	180,139	(4,896,461)
Pension benefits.....	17,123,869	-	7,884,000	-	(9,239,869)
Property and liability insurance.....	457,000	-	-	-	(457,000)
Fringe benefits.....	20,568,318	3,778,707	-	-	(16,789,611)
Interest.....	3,635,472	-	1,714,791	-	(1,920,681)
State and county charges.....	5,460,231	-	-	-	(5,460,231)
<b>Total Governmental Activities.....</b>	<b>184,074,160</b>	<b>26,054,700</b>	<b>26,501,444</b>	<b>8,017,139</b>	<b>(123,500,877)</b>
<i>Business-Type Activities:</i>					
Golf.....	926,019	1,168,977	-	-	242,958
Water and sewer.....	17,617,601	20,352,754	-	536,265	3,271,418
<b>Total Business-Type Activities.....</b>	<b>18,543,620</b>	<b>21,521,731</b>	<b>-</b>	<b>536,265</b>	<b>3,514,376</b>
<b>Total Primary Government.....</b>	<b>\$ 202,617,780</b>	<b>\$ 47,576,431</b>	<b>\$ 26,501,444</b>	<b>\$ 8,553,404</b>	<b>\$ (119,986,501)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(123,500,877)</b>	\$ <b>3,514,376</b>	\$ <b>(119,986,501)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	114,633,777	-	114,633,777
Motor vehicle and other excise taxes.....	5,083,769	-	5,083,769
Hotel/motel tax.....	603,576	-	603,576
Penalties and interest on taxes.....	417,885	-	417,885
Payments in lieu of taxes.....	1,016,388	-	1,016,388
Grants and contributions not restricted to specific programs.....	7,541,759	-	7,541,759
Unrestricted investment income.....	1,341,412	-	1,341,412
Miscellaneous.....	512,960	-	512,960
<i>Transfers, net</i> .....	2,043,885	(2,043,885)	-
Total general revenues and transfers.....	133,195,411	(2,043,885)	131,151,526
Change in net assets.....	9,694,534	1,470,491	11,165,025
<i>Net Assets:</i>			
Beginning of year (as restated).....	175,952,594	22,284,530	198,237,124
End of year.....	\$ <u>185,647,128</u>	\$ <u>23,755,021</u>	\$ <u>209,402,149</u>

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2004

<b>ASSETS</b>	General	Lawrence School & Longwood Playground Renovations	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments.....	\$ 43,935,181	\$ 5,781,579	\$ 21,987,505	\$ 71,704,265
Investments.....	-	-	3,790,261	3,790,261
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,218,348	-	-	1,218,348
Real estate tax deferrals.....	196,889	-	-	196,889
Tax liens.....	533,482	-	-	533,482
Motor vehicle excise taxes.....	242,868	-	-	242,868
User fees.....	151,872	-	-	151,872
Departmental and other.....	3,199,909	-	733,771	3,933,680
Intergovernmental.....	45,690,000	-	4,551,160	50,241,160
Loans.....	-	-	440,812	440,812
Due from other funds.....	450,000	-	-	450,000
Tax foreclosures.....	62,656	-	-	62,656
Other assets.....	487,383	-	-	487,383
Prepaid expenses.....	-	-	27,383	27,383
<b>TOTAL ASSETS.....</b>	<b>\$ 96,168,588</b>	<b>\$ 5,781,579</b>	<b>\$ 31,530,892</b>	<b>\$ 133,481,059</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 2,382,382	\$ 2,273,824	\$ 342,830	\$ 4,999,036
Accrued liabilities.....	855,636	-	2,759	858,395
Accrued payroll.....	1,039,011	-	71,444	1,110,455
Tax refunds payable.....	2,412,000	-	-	2,412,000
Liabilities due depositors.....	520,015	-	-	520,015
Abandoned property.....	-	-	5,997	5,997
Other liabilities.....	976,888	-	36,001	1,012,889
Deferred revenues.....	51,681,934	-	4,918,051	56,599,985
Notes payable.....	-	11,500,000	-	11,500,000
<b>TOTAL LIABILITIES.....</b>	<b>59,867,866</b>	<b>13,773,824</b>	<b>5,377,082</b>	<b>79,018,772</b>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances and continuing appropriations.....	16,996,997	-	-	16,996,997
Loans.....	-	-	440,812	440,812
Perpetual permanent funds.....	-	-	835,610	835,610
Unreserved:				
Designated for subsequent year's expenditures.....	6,966,241	-	-	6,966,241
Undesignated, reported in:				
General fund.....	12,337,484	-	-	12,337,484
Special revenue funds.....	-	-	17,376,220	17,376,220
Capital projects funds.....	-	(7,992,245)	4,051,668	(3,940,577)
Permanent funds.....	-	-	3,449,500	3,449,500
<b>TOTAL FUND BALANCES.....</b>	<b>36,300,722</b>	<b>(7,992,245)</b>	<b>26,153,810</b>	<b>54,462,287</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 96,168,588</b>	<b>\$ 5,781,579</b>	<b>\$ 31,530,892</b>	<b>\$ 133,481,059</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

Total governmental fund balances.....		\$ 54,462,287
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		173,442,564
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		56,599,986
Internal service funds are used by management to account for liability, health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		1,279,173
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(800,148)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(81,517,732)	
Capital lease obligations.....	(394,251)	
Landfill closure.....	(9,412,000)	
Compensated absences.....	(8,012,751)	
Net effect of reporting long-term liabilities.....		<u>(99,336,734)</u>
Net assets of governmental activities.....		<u>\$ 185,647,128</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

	General	Lawrence School & Longwood Playground Renovations	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 113,437,869	\$ -	\$ -	\$ 113,437,869
Motor vehicle and other excise taxes.....	5,038,714	-	-	5,038,714
Hotel/motel tax.....	603,576	-	-	603,576
Charges for services.....	3,815,313	-	-	3,815,313
Penalties and interest on taxes.....	417,885	-	-	417,885
Payments in lieu of taxes.....	1,016,388	-	-	1,016,388
Licenses and permits.....	3,145,966	-	-	3,145,966
Fines and forfeitures.....	3,957,036	-	-	3,957,036
Intergovernmental.....	24,294,301	-	9,656,342	33,950,643
Departmental and other.....	159,613	-	7,829,600	7,989,213
Contributions.....	-	-	1,648,748	1,648,748
Investment income.....	737,181	-	457,831	1,195,012
<b>TOTAL REVENUES.....</b>	<b>156,623,842</b>	<b>-</b>	<b>19,592,521</b>	<b>176,216,363</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	8,278,131	-	243,410	8,521,541
Public safety.....	28,230,721	-	819,033	29,049,754
Education.....	54,524,627	11,053,583	11,195,126	76,773,336
Public works.....	15,086,810	-	152,303	15,239,113
Community and economic development.....	-	-	1,420,252	1,420,252
Human services.....	1,943,539	-	1,100,585	3,044,124
Leisure services.....	4,655,663	-	1,140,478	5,796,141
Pension benefits.....	17,123,869	-	-	17,123,869
Fringe benefits.....	17,151,762	-	25,891	17,177,653
State and county charges.....	5,460,231	-	-	5,460,231
Debt service:				
Principal.....	6,257,712	-	-	6,257,712
Interest.....	4,122,420	-	-	4,122,420
<b>TOTAL EXPENDITURES.....</b>	<b>162,835,485</b>	<b>11,053,583</b>	<b>16,097,078</b>	<b>189,986,146</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(6,211,643)</b>	<b>(11,053,583)</b>	<b>3,495,443</b>	<b>(13,769,783)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from bonds and notes.....	-	3,000,000	2,700,000	5,700,000
Proceeds from refunding bonds.....	4,183,468	-	-	4,183,468
Premium from issuance of bonds, net of expenditures...	138,739	-	-	138,739
Payments to refunded bond escrow agent.....	(4,253,642)	-	-	(4,253,642)
Insurance recovery.....	-	2,662,168	-	2,662,168
Transfers in.....	4,906,892	-	349,782	5,256,674
Transfers out.....	(349,782)	-	(2,863,007)	(3,212,789)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>4,625,675</b>	<b>5,662,168</b>	<b>186,775</b>	<b>10,474,618</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(1,585,968)</b>	<b>(5,391,415)</b>	<b>3,682,218</b>	<b>(3,295,165)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>37,886,690</b>	<b>(2,600,830)</b>	<b>22,471,592</b>	<b>57,757,452</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 36,300,722</b>	<b>\$ (7,992,245)</b>	<b>\$ 26,153,810</b>	<b>\$ 54,462,287</b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds.....		\$ (3,295,165)
<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.....	15,405,012	
Depreciation expense.....	<u>(9,043,728)</u>	
Net effect of reporting capital assets.....		6,361,284
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		8,829,455
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Capital lease financing.....	(394,251)	
Proceeds from bonds and notes.....	(5,700,000)	
Proceeds from refunding bonds.....	(4,183,468)	
Payments to refunding bond escrow agent.....	4,253,642	
Deferred charges on refunding.....	(378,642)	
Debt service principal payments.....	<u>6,257,712</u>	
Net effect of reporting long-term debt.....		(145,007)
<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.....	(2,430,041)	
Net change in accrued interest on long-term debt.....	818,566	
Net change in landfill accrual.....	<u>(522,000)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>(2,133,475)</u>
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>77,442</u>
Change in net assets of governmental activities.....		\$ <u>9,694,534</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
<b>ASSETS</b>				
CURRENT:				
Cash and short-term investments.....	\$ 2,116,206	\$ (1,606)	\$ 2,114,600	\$ 3,802,421
Investments.....	-	-	-	3,185,108
Receivables, net of allowance for uncollectibles:				
Water and sewer fees.....	6,189,235	-	6,189,235	-
Internal balances.....	-	(450,000)	(450,000)	-
Prepaid expenses.....	1,574	-	1,574	975,000
Total current assets.....	<u>8,307,015</u>	<u>(451,606)</u>	<u>7,855,409</u>	<u>7,962,529</u>
NONCURRENT:				
Capital assets, net of accumulated depreciation.....	<u>33,238,357</u>	<u>2,194,232</u>	<u>35,432,589</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<u><b>41,545,372</b></u>	<u><b>1,742,626</b></u>	<u><b>43,287,998</b></u>	<u><b>7,962,529</b></u>
<b>LIABILITIES</b>				
CURRENT:				
Warrants payable.....	118,562	8,003	126,565	665,411
Accrued liabilities.....	-	-	-	250,636
Health claims payable.....	-	-	-	2,200,000
Accrued interest.....	139,974	6,545	146,519	-
Other liabilities.....	-	-	-	571,309
Compensated absences.....	267,737	11,668	279,405	-
Workers' compensation.....	-	-	-	1,182,000
Bonds and notes payable.....	<u>1,962,871</u>	<u>159,086</u>	<u>2,121,957</u>	<u>-</u>
Total current liabilities.....	<u>2,489,144</u>	<u>185,302</u>	<u>2,674,446</u>	<u>4,869,356</u>
NONCURRENT:				
Compensated absences.....	113,082	4,703	117,785	-
Workers' compensation.....	-	-	-	1,814,000
Bonds and notes payable.....	<u>15,573,545</u>	<u>1,167,201</u>	<u>16,740,746</u>	<u>-</u>
Total noncurrent liabilities.....	<u>15,686,627</u>	<u>1,171,904</u>	<u>16,858,531</u>	<u>1,814,000</u>
<b>TOTAL LIABILITIES.....</b>	<u><b>18,175,771</b></u>	<u><b>1,357,206</b></u>	<u><b>19,532,977</b></u>	<u><b>6,683,356</b></u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	15,701,941	867,945	16,569,886	-
Unrestricted.....	<u>7,667,660</u>	<u>(482,525)</u>	<u>7,185,135</u>	<u>1,279,173</u>
<b>TOTAL NET ASSETS.....</b>	<u><b>\$ 23,369,601</b></u>	<u><b>\$ 385,420</b></u>	<u><b>\$ 23,755,021</b></u>	<u><b>\$ 1,279,173</b></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
<b>OPERATING REVENUES:</b>				
Employee contributions .....	\$ -	\$ -	\$ -	\$ 3,566,896
Employer contributions .....	-	-	-	11,963,963
Charges for services .....	20,280,679	1,168,977	21,449,656	-
Other.....	-	-	-	211,811
<b>TOTAL OPERATING REVENUES .....</b>	<b>20,280,679</b>	<b>1,168,977</b>	<b>21,449,656</b>	<b>15,742,670</b>
<b>OPERATING EXPENSES:</b>				
Cost of services and administration .....	15,946,420	818,595	16,765,015	-
Depreciation.....	859,795	69,276	929,071	-
Building insurance.....	-	-	-	457,000
Employee benefits .....	-	-	-	15,354,628
<b>TOTAL OPERATING EXPENSES .....</b>	<b>16,806,215</b>	<b>887,871</b>	<b>17,694,086</b>	<b>15,811,628</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>3,474,464</b>	<b>281,106</b>	<b>3,755,570</b>	<b>(68,958)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income.....	-	-	-	146,400
Interest expense.....	(811,386)	(38,148)	(849,534)	-
Intergovernmental.....	536,265	-	536,265	-
Premium from issuance bonds, net of expenditures...	72,075	-	72,075	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(203,046)</b>	<b>(38,148)</b>	<b>(241,194)</b>	<b>146,400</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS.....</b>	<b>3,271,418</b>	<b>242,958</b>	<b>3,514,376</b>	<b>77,442</b>
<b>OPERATING TRANSFERS:</b>				
Transfers in.....	304,449	-	304,449	-
Transfers out.....	(2,210,818)	(137,516)	(2,348,334)	-
<b>TOTAL OPERATING TRANSFERS.....</b>	<b>(1,906,369)</b>	<b>(137,516)</b>	<b>(2,043,885)</b>	<b>-</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>1,365,049</b>	<b>105,442</b>	<b>1,470,491</b>	<b>77,442</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>22,004,552</b>	<b>279,978</b>	<b>22,284,530</b>	<b>1,201,731</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 23,369,601</b>	<b>\$ 385,420</b>	<b>\$ 23,755,021</b>	<b>\$ 1,279,173</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from customers and users.....	\$ 19,543,754	\$ 1,168,977	\$ 20,712,731	\$ -
Receipts from interfund services provided.....	-	-	-	3,795,740
Payments to vendors.....	(14,234,814)	(716,848)	(14,951,662)	(15,163,616)
Payments to employees.....	(1,887,610)	(169,680)	(2,057,290)	-
Payments for interfund services used.....	-	-	-	11,946,930
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>3,421,330</b>	<b>282,449</b>	<b>3,703,779</b>	<b>579,054</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>				
Transfers in.....	304,449	-	304,449	-
Transfers out.....	(2,210,818)	(137,516)	(2,348,334)	-
Intergovernmental.....	536,265	-	536,265	-
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(1,370,104)</b>	<b>(137,516)</b>	<b>(1,507,620)</b>	<b>-</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>				
Proceeds from the issuance of bonds and notes.....	1,341,967	-	1,341,967	-
Premium from the issuance of bonds and notes.....	72,075	-	72,075	-
Acquisition and construction of capital assets.....	(730,305)	(65,880)	(796,185)	-
Principal payments on bonds and notes.....	(1,852,069)	(178,695)	(2,030,764)	-
Interest expense.....	(1,020,982)	(39,450)	(1,060,432)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(2,189,314)</b>	<b>(284,025)</b>	<b>(2,473,339)</b>	<b>-</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Purchase of investments.....	-	-	-	(3,185,108)
Investment income.....	-	-	-	146,400
<b>NET CASH FROM INVESTING ACTIVITIES.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,038,708)</b>
<b>NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....</b>	<b>(138,088)</b>	<b>(139,092)</b>	<b>(277,180)</b>	<b>(2,459,654)</b>
<b>CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....</b>	<b>2,254,294</b>	<b>137,486</b>	<b>2,391,780</b>	<b>6,262,075</b>
<b>CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....</b>	<b>\$ 2,116,206</b>	<b>\$ (1,606)</b>	<b>\$ 2,114,600</b>	<b>\$ 3,802,421</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>				
Operating income (loss).....	\$ 3,474,464	\$ 281,106	\$ 3,755,570	\$ (68,958)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	859,795	69,276	929,071	-
Changes in assets and liabilities:				
Charges for services receivable.....	(736,925)	-	(736,925)	-
Prepaid expenses.....	(1,574)	-	(1,574)	-
Warrants payable.....	(309,276)	(74,343)	(383,619)	(710,856)
Accrued liabilities.....	-	-	-	250,636
Health claims payable.....	-	-	-	500,000
Other liabilities.....	-	-	-	366,232
Accrued compensated absences.....	134,846	6,410	141,256	-
Workers' compensation.....	-	-	-	242,000
<b>Total adjustments.....</b>	<b>(53,134)</b>	<b>1,343</b>	<b>(51,791)</b>	<b>648,012</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 3,421,330</b>	<b>\$ 282,449</b>	<b>\$ 3,703,779</b>	<b>\$ 579,054</b>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	Pension Trust Fund (as of December 31, 2003)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and short-term investments.....	\$ 19,605,674	\$ 1,571,570	\$ 33,825
Investments.....	162,726,641	2,453,511	-
Interest and dividends.....	449,145	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	353,718	-	32,918
<b>TOTAL ASSETS.....</b>	<b>183,135,178</b>	<b>4,025,081</b>	<b>66,743</b>
<b>LIABILITIES</b>			
Warrants payable.....	15,170,059	196	-
Accrued liabilities.....	-	163,084	-
Other liabilities.....	-	-	66,743
<b>TOTAL LIABILITIES.....</b>	<b>15,170,059</b>	<b>163,280</b>	<b>66,743</b>
<b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes.....	\$ 167,965,119	\$ 3,861,801	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	Pension Trust Fund (as of December 31, 2003)	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Employer.....	\$ 9,310,000	\$ -
Employee.....	4,348,761	-
Private donations.....	-	55,231
Total contributions.....	<u>13,658,761</u>	<u>55,231</u>
Net investment income (loss):		
Net change in fair value of investments.....	25,798,216	-
Investment and dividends.....	2,647,198	246,584
Dividends.....	-	-
Total investment income (loss).....	28,445,414	246,584
Less: investment expense.....	<u>(328,048)</u>	-
Net investment income (loss).....	<u>28,117,366</u>	<u>246,584</u>
Intergovernmental.....	<u>28,933</u>	-
Transfers from other systems.....	<u>439,988</u>	-
TOTAL ADDITIONS.....	<u>42,245,048</u>	<u>301,815</u>
<b>DEDUCTIONS:</b>		
Administration.....	279,298	-
Transfers to other systems.....	714,557	-
Retirement benefits and refunds.....	15,750,932	-
Educational scholarships.....	-	164,858
TOTAL DEDUCTIONS.....	<u>16,744,787</u>	<u>164,858</u>
CHANGE IN NET ASSETS.....	25,500,261	136,957
NET ASSETS AT BEGINNING OF YEAR.....	<u>142,464,858</u>	<u>3,724,844</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 167,965,119</u>	<u>\$ 3,861,801</u>

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The Town was founded in 1630 as a part of Boston and was incorporated in 1705 under the Statutes of the Commonwealth of Massachusetts. The Town operates under a representative Town Meeting form of government and provides the following services to the residents of its community: administrative, public safety, public works, education, community development, water and sewer, health, elder and recreation.

The Town of Brookline is a municipal corporation that is governed by an elected Board of Selectmen.

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

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

In the Fiduciary Funds:

- (1) The Brookline Contributory Retirement System (the System) was established to provide retirement benefits to Town employees, the Brookline Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Town Comptroller (ex-officio), an appointee of the Board, two members elected by the System's participants and one member appointed by the other four Board members. The System is presented using the accrual basis of accounting and is reported as a Pension Trust Fund in the fiduciary fund financial statements.

**Availability of Financial Information for Component Units**

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at Brookline Town Hall.

*Joint Ventures* – The Town is a member of the Massachusetts Water Resources Authority (MWRA), a joint venture with other Massachusetts governmental entities that was organized to provide water and sewer services to the respective members' Cities, Towns and Districts. Complete financial statements for the MWRA can be obtained directly from their administrative office located at 100 First Avenue, Boston, Massachusetts 02189.

The Town is also a member of the Massachusetts Bay Transportation Authority (MBTA), a joint venture with other Massachusetts governmental entities that was organized to provide public transportation services to the respective members' Cities, Towns and Districts. Complete financial statements for the MBTA can be obtained directly from their administrative office located at 10 Park Plaza, Boston, Massachusetts 02116.

## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

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

### *Fund Financial Statements*

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

#### *Major Fund Criteria*

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

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

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

Internal service funds and fiduciary funds are reported by fund type.

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

### *Government-Wide Financial Statements*

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

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

Program revenues include the following:

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

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and 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.

Real estate and personal property tax revenues are considered available if they are collected by fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

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

The following major governmental funds are reported:

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

The *Lawrence School and Longwood Playground Renovation Fund capital projects fund* is used to account for financial resources to expand and upgrade the school facilities and related playground.

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

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

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

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

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

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

The following major proprietary funds are reported:

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

The *golf enterprise fund* is used to account for the Town's golf course activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to health insurance, workers' compensation and municipal building insurance.

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

The following fiduciary fund types are reported:

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

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

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

*Government-Wide and Fund Financial Statements*

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

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 and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> 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 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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

***Motor Vehicle Excise***

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. 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.

***Refuse***

Refuse fees are levied monthly for each type of property that utilizes the collection service and are based upon a third party waste collection contract. Refuse fees are recorded receivables in the fiscal year of the levy. Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Water & Sewer**

User fees are levied monthly 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 annually and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Departmental and Other**

Departmental and other receivables consist primarily of police and fire details and are recorded as receivables in the fiscal year accrued. The allowance of 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, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded 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 Community and Economic Development administers loan programs that provide housing assistance to residents and capital needs assistance for small businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

The allowance of 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. Restricted Assets**

Certain assets of the enterprise fund are classified as restricted if their use is restricted by contract covenants.

**H. 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, and the proprietary fund 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.

Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

The beginning balance of governmental capital assets, net of accumulated depreciation, has been restated due to the Town completing the retroactive reporting of governmental infrastructure assets, as allowed by GASB 34. The amount previously reported of \$161,659,701 has been restated to \$167,081,280. A corresponding increase of \$5,421,581 to beginning net assets was made.

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	5-50
Buildings.....	5-50
Machinery and equipment.....	3-20
Infrastructure.....	10-75

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

*Governmental Fund Financial Statements*

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

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*

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

The general fund has provided a long-term loan to the golf enterprise fund and these balances are included in the statement of net assets as "internal balances".

*Fund Financial Statements*

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

The general fund has provided a long-term loan to the golf enterprise fund and these balances are included in the fund statements as “Due from other funds” or “Due to other funds”.

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

*Fund Financial Statements*

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

K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. In addition, property taken by the Town through the foreclosure process is recorded as an asset and deferred revenue. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

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

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

Net assets have been “restricted for” the following:

“Loans” represents community development outstanding loans receivable balances.

“Permanent funds - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other” represents amounts restricted by outside sources for specific purposes.

#### *Fund Financial Statements (Fund Balances)*

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

Fund balances have been “reserved for” the following:

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

“Loans” represents community development outstanding loans receivable balances.

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

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2005 operating budget.

#### 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 assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable material bond premium or discount.

##### *Governmental Fund Financial Statements*

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

#### 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 golf enterprise fund is voluntarily assigned and transferred to the general fund. The water & sewer and internal service funds retain their investment income.

### 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. Post Retirement Benefits

#### *Government-Wide and Fund Financial Statements*

In addition to providing pension benefits, health and life insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health and life insurance is recognized by recording the employer's 75% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2004, this expense/expenditure totaled approximately \$4,295,000. There were 1,254 participants eligible to receive benefits at June 30, 2004.

### Q. Use of Estimates

#### *Government-Wide and Fund Financial Statements*

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

### R. Individual Fund Deficits

At fiscal year-end several individual fund deficits exist in the Special Revenue Fund that will be funded through grants and available fund balances in the next fiscal year.

At fiscal year-end several individual fund deficits exist in the Capital Projects Fund due to the fact long-term bonds have not been issued to permanently fund the expenditures. The Town expects to fund these deficits by issuing permanent debt in the next fiscal year.

S. 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 combined balance sheet as "Cash and Short-term Investments". The deposits and investments of the pension trust fund are held separately from those of other funds.

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

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.

Short-term investments and investments are classified as to collateral risk into the following three categories:

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

At fiscal year-end, the carrying amount of deposits totaled \$31,971,590 and the bank balance totaled \$29,137,829. Of the bank balance, \$702,281 was covered by Federal Depository Insurance and \$28,435,548 was uninsured and uncollateralized.

At December 31, 2003, the carrying amount of deposits for the System totaled \$702,338 and the bank balance totaled \$1,283,721. Of the bank balance, \$100,000 was covered by Federal Depository Insurance.

The following details the carrying amount of cash and short-term investments and investments as reported in the basic financial statements at June 30, 2004:

	Cash and Short-term Investments	Investments	Total
<b>Cash balances (excluding the System) at June 30, 2004:</b>			
Checking, savings and NOW accounts.....	\$ 23,027,702	\$ -	\$ 23,027,702
Certificates of deposit.....	106,150	-	106,150
Money market deposits.....	8,837,738	-	8,837,738
	<u>31,971,590</u>	<u>-</u>	<u>31,971,590</u>
<u>Investments not subject to categorization:</u>			
MMDT.....	47,255,091	-	47,255,091
<u>Investments subject to categorization (Category 3):</u>			
U.S. government securities.....	-	903,659	903,659
Equity securities.....	-	7,143,443	7,143,443
Fixed income securities.....	-	1,381,778	1,381,778
	<u>47,255,091</u>	<u>9,428,880</u>	<u>56,683,971</u>
Total cash and short-term investments and investments of the Town at June 30, 2003.....	<u>79,226,681</u>	<u>9,428,880</u>	<u>88,655,561</u>
<b>System cash balances at December 31, 2003:</b>			
Checking, savings and NOW accounts.....	243,418	-	243,418
Money market deposits.....	458,917	-	458,917
	<u>702,335</u>	<u>-</u>	<u>702,335</u>
<u>Investments not subject to categorization:</u>			
PRIT.....	-	852,770	852,770
Real estate investments.....	-	7,071,067	7,071,067
Money market mutual funds.....	18,903,339	-	18,903,339
<u>Investments subject to categorization (Category 3):</u>			
Equity securities.....	-	86,397,297	86,397,297
Fixed income securities.....	-	47,305,164	47,305,164
International securities.....	-	21,100,343	21,100,343
	<u>18,903,339</u>	<u>162,726,641</u>	<u>181,629,980</u>
Total cash and short-term investments and investments of the System at December 31, 2003.....	<u>19,605,674</u>	<u>162,726,641</u>	<u>182,332,315</u>
<b>Total cash and short-term investments and investments as reported on the combined balance sheet.....</b>	<b><u>\$ 98,832,355</u></b>	<b><u>\$ 172,155,521</u></b>	<b><u>\$ 270,987,876</u></b>

**NOTE 3 – RECEIVABLES**

At June 30, 2004, receivables for the individual major governmental funds and non-major internal service, and fiduciary 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....	\$ 1,415,237	\$ -	\$ 1,415,237
Tax liens.....	533,482	-	533,482
Motor vehicle and other excise taxes.....	694,015	(451,147)	242,868
User fees.....	151,872	-	151,872
Departmental and other.....	5,673,538	(1,739,858)	3,933,680
Intergovernmental.....	50,241,160	-	50,241,160
Loans.....	440,812	-	440,812
Total.....	<u>\$ 59,150,116</u>	<u>\$ (2,191,005)</u>	<u>\$ 56,959,111</u>

At June 30, 2004, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer fees.....	<u>\$ 6,189,235</u>	<u>\$ -</u>	<u>\$ 6,189,235</u>

Governmental funds report *deferred revenue* 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 fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Type:</u>			
Real estate and personal property taxes....	\$ 1,415,237	\$ -	\$ 1,415,237
Tax liens.....	533,482	-	533,482
Departmental.....	3,135,819	665,799	3,801,618
Motor vehicle and other excise.....	242,868	-	242,868
User fees.....	151,872	-	151,872
Due from Enterprise.....	450,000	-	450,000
Tax foreclosure.....	62,656	-	62,656
Intergovernmental.....	45,690,000	4,252,252	49,942,252
Total.....	<u>\$ 51,681,934</u>	<u>\$ 4,918,051</u>	<u>\$ 56,599,985</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 79,727	\$ -	\$ -	\$ 79,727
Construction in progress.....	-	10,781,666	-	10,781,666
Total capital assets not being depreciated.....	<u>79,727</u>	<u>10,781,666</u>	<u>-</u>	<u>10,861,393</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	14,176,640	1,494,677	-	15,671,317
Buildings.....	186,304,670	900,304	-	187,204,974
Machinery and equipment.....	27,508,412	2,213,398	-	29,721,810
Infrastructure.....	37,539,242	14,967	-	37,554,209
Total capital assets being depreciated.....	<u>265,528,964</u>	<u>4,623,346</u>	<u>-</u>	<u>270,152,310</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(4,835,609)	(558,621)	-	(5,394,230)
Buildings.....	(53,992,249)	(4,604,969)	-	(58,597,218)
Machinery and equipment.....	(17,478,112)	(2,497,325)	-	(19,975,437)
Infrastructure.....	(22,221,441)	(1,382,813)	-	(23,604,254)
Total accumulated depreciation.....	<u>(98,527,411)</u>	<u>(9,043,728)</u>	<u>-</u>	<u>(107,571,139)</u>
Total governmental activities capital assets, net.....	<u>\$ 167,081,280</u>	<u>\$ 6,361,284</u>	<u>\$ -</u>	<u>\$ 173,442,564</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water &amp; Sewer Activities:</b>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 201,230	\$ -	\$ -	\$ 201,230
Buildings.....	2,450,656	-	-	2,450,656
Machinery and equipment.....	2,287,570	97,980	-	2,385,550
Infrastructure.....	<u>41,972,046</u>	<u>632,324</u>	<u>-</u>	<u>42,604,370</u>
Total capital assets being depreciated.....	<u>46,911,502</u>	<u>730,304</u>	<u>-</u>	<u>47,641,806</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(6,708)	(6,594)	-	(13,302)
Buildings.....	(606,387)	(53,758)	-	(660,145)
Machinery and equipment.....	(1,200,945)	(231,371)	-	(1,432,316)
Infrastructure.....	<u>(11,729,614)</u>	<u>(568,072)</u>	<u>-</u>	<u>(12,297,686)</u>
Total accumulated depreciation.....	<u>(13,543,654)</u>	<u>(859,795)</u>	<u>-</u>	<u>(14,403,449)</u>
Total capital assets being depreciated, net.....	<u>\$ 33,367,848</u>	<u>\$ (129,491)</u>	<u>\$ -</u>	<u>\$ 33,238,357</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Golf Course Activities:</b>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 872,243	\$ 45,345	\$ -	\$ 917,588
Buildings.....	1,554,596	3,034	-	1,557,630
Machinery and equipment.....	<u>-</u>	<u>17,500</u>	<u>-</u>	<u>17,500</u>
Total capital assets being depreciated.....	<u>2,426,839</u>	<u>65,879</u>	<u>-</u>	<u>2,492,718</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(77,221)	(29,725)	-	(106,946)
Buildings.....	(151,989)	(38,884)	-	(190,873)
Machinery and equipment.....	<u>-</u>	<u>(667)</u>	<u>-</u>	<u>(667)</u>
Total accumulated depreciation.....	<u>(229,210)</u>	<u>(69,276)</u>	<u>-</u>	<u>(298,486)</u>
Total capital assets being depreciated, net.....	<u>\$ 2,197,629</u>	<u>\$ (3,397)</u>	<u>\$ -</u>	<u>\$ 2,194,232</u>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2004, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Water & Sewer Enterprise Fund	
General Fund.....	\$ -	\$ 349,782	\$ -	\$ 349,782
Nonmajor Governmental Funds.....	2,863,007	-	-	2,863,007
Water & Sewer Enterprise Fund.....	1,906,369	-	304,449	2,210,818
Golf Enterprise Fund.....	137,516	-	-	137,516
	<u>\$ 4,906,892</u>	<u>\$ 349,782</u>	<u>\$ 304,449</u>	<u>\$ 5,561,123</u>

Transfers represent amounts voted to fund the fiscal year 2004 operating budget.

**NOTE 6 - CAPITAL LEASES**

The Town has entered into several lease agreements to finance the acquisition of equipment with an original cost of \$608,534. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2004, are as follows:

Fiscal Years Ending June 30	Governmental Activities
2005.....	\$ 202,845
2006.....	<u>202,844</u>
Total minimum lease payments.....	405,689
Less: amounts representing interest.....	<u>(11,438)</u>
Present value of minimum lease payments.....	<u>\$ 394,251</u>

**NOTE 7 – SHORT-TERM FINANCING**

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

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).

- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds.

Details related to the short-term debt activity for the fiscal year ended June 30, 2004, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2003	Retired/ Redeemed	Balance at June 30, 2004
BAN	School Remodeling - Lawrence.....	1.14	05/13/04	\$ 3,000,000	\$ 3,000,000	\$ -
BAN	School Remodeling - Lawrence.....	1.43	04/15/05	11,500,000	-	11,500,000
Total.....				\$ 14,500,000	\$ 3,000,000	\$ 11,500,000

**NOTE 8 - LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 2 1/2% 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".

In order to take advantage of favorable interest rates the Town issued \$8,480,000 of General Obligation Refunding Bonds during fiscal year 2004. \$7,985,000 of general obligation bonds were defeased by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. The Town has decreased its aggregate debt service payments by approximately \$588,490 and will experience an economic gain of \$493,879. At June 30, 2004, approximately \$3,875,000 of Governmental and \$4,110,000 of Enterprise Fund bonds outstanding from the advance refunding are considered defeased. Details related to the outstanding indebtedness at June 30, 2004, and the debt service requirements are as follows:

Project	Interest Rate (%)	Outstanding at June 30, 2003	Issued	Redeemed	Outstanding at June 30, 2004
<b>Inside Debt Limit</b>					
Schools.....	2.59-5.91	\$ 25,690,951	\$ 7,780,000	\$ 4,487,584	\$ 28,983,367
General Government.....	3.22-5.28	15,356,418	2,103,468	3,866,469	13,593,417
Departmental Equipment.....	3.93-4.86	96,000	-	96,000	-
Athletic and recreational facilities....	3.94-4.94	803,607	-	207,659	595,948
Sub-total.....		<u>41,946,976</u>	<u>9,883,468</u>	<u>8,657,712</u>	<u>43,172,732</u>
<b>Outside Debt Limit</b>					
Schools.....	5.33 - 5.35	<u>39,820,000</u>	<u>-</u>	<u>1,475,000</u>	<u>38,345,000</u>
Total Government Bonds and Notes Payable.....		<u>81,766,976</u>	<u>9,883,468</u>	<u>10,132,712</u>	<u>81,517,732</u>
<b>ENTERPRISE FUNDS</b>					
<b>Inside Debt Limit</b>					
Golf Course Enterprise Fund.....	3.19-3.90	1,500,902	-	174,615	1,326,287
Water Enterprise Fund.....	3.90-6.63	12,537,640	4,296,532	5,493,191	11,340,981
Sewer Enterprise Fund.....	3.90-5.28	5,535,000	1,155,435	495,000	6,195,435
Total Enterprise Bonds and Notes Payable.....		<u>19,573,542</u>	<u>5,451,967</u>	<u>6,162,806</u>	<u>18,862,703</u>
Total Bonds and Notes Payable.....		<u>\$ 101,340,518</u>	<u>\$ 15,335,435</u>	<u>\$ 16,295,518</u>	<u>\$ 100,380,435</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005.....	\$ 6,499,130	\$ 3,535,359	\$ 10,034,489
2006.....	6,443,457	3,287,782	9,731,239
2007.....	6,253,577	3,049,845	9,303,422
2008.....	5,959,036	2,817,269	8,776,305
2009.....	5,767,309	2,594,164	8,361,473
2010.....	5,841,177	2,370,289	8,211,466
2011.....	5,574,999	2,135,743	7,710,742
2012.....	5,296,239	1,911,703	7,207,942
2013.....	4,916,632	1,689,430	6,606,062
2014.....	4,275,588	1,467,407	5,742,995
2015.....	3,832,794	1,256,057	5,088,851
2016.....	3,832,794	1,054,174	4,886,968
2017.....	3,990,000	864,027	4,854,027
2018.....	3,955,000	661,428	4,616,428
2019.....	3,940,000	457,404	4,397,404
2020.....	4,120,000	252,637	4,372,637
2021.....	510,000	42,713	552,713
2022.....	510,000	21,674	531,674
Totals.....	\$ <u>81,517,732</u>	\$ <u>29,469,105</u>	\$ <u>110,986,837</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005.....	\$ 2,121,957	\$ 845,223	\$ 2,967,180
2006.....	2,122,630	764,056	2,886,686
2007.....	1,867,510	684,942	2,552,452
2008.....	1,647,051	611,620	2,258,671
2009.....	1,503,778	546,362	2,050,140
2010.....	1,368,823	483,235	1,852,058
2011.....	1,365,001	417,450	1,782,451
2012.....	1,208,761	351,973	1,560,734
2013.....	1,153,368	291,298	1,444,666
2014.....	1,114,412	230,814	1,345,226
2015.....	807,206	166,824	974,030
2016.....	807,206	127,475	934,681
2017.....	805,000	89,268	894,268
2018.....	470,000	50,780	520,780
2019.....	250,000	26,562	276,562
2020.....	250,000	13,125	263,125
Totals.....	\$ <u>18,862,703</u>	\$ <u>5,701,007</u>	\$ <u>24,563,710</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan. During fiscal year 2004,

\$1,191,700 was received from this program. Of this amount, \$536,265 was a grant and \$655,435 was a loan. The loan portion is payable in five equal annual installments. At June 30, 2004, the outstanding principal amount of this loan totaled \$655,435.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the School Building Assistance Bureau, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2004, approximately \$3,571,000 of such assistance was received and an additional \$7,837,000 was recognized as accrual revenue for reimbursement of the Lawrence School. Approximately \$60,297,000 will be received in future fiscal years. Of this amount, \$14,607,000 represents reimbursement of long-term interest costs, and approximately \$45,690,000 represents reimbursement of approved construction costs. Accordingly, a \$45,690,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

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, 2004, the Town had the following authorized and unissued debt:

Purpose	Amount
Lawrence School.....	\$ 11,500,000
Putterham Golf Course.....	1,740,000
Wastewater Systems.....	3,344,565
Storm Drain Improvements.....	500,000
Muddy River Project.....	745,000
Landfill.....	7,890,000
Beacon Street Reconstruction.....	<u>2,600,000</u>
Total.....	<u>\$ 28,319,565</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2004, the following changes occurred in long-term liabilities:

**Governmental Funds**

	Balance June 30, 2003	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2004	Current Portion
Long-Term Bonds and Notes.....	\$ 81,766,976	\$ 9,883,468	\$ (10,132,712)	\$ -	\$ 81,517,732	\$ 6,499,130
Accrued Health Claims.....	1,700,000	-	-	500,000	2,200,000	2,200,000
Workers' Compensation.....	2,754,000	-	-	242,000	2,996,000	1,182,000
Compensated Absences.....	5,582,710	-	-	2,430,041	8,012,751	4,681,445
Landfill Closure.....	<u>8,890,000</u>	<u>-</u>	<u>-</u>	<u>522,000</u>	<u>9,412,000</u>	<u>-</u>
Total.....	<u>\$ 100,693,686</u>	<u>\$ 9,883,468</u>	<u>\$ (10,132,712)</u>	<u>\$ 3,694,041</u>	<u>\$ 104,138,483</u>	<u>\$ 14,562,575</u>

**Business-Type Activities**

	Balance June 30, 2003	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2004	Current Portion
Long-Term Bonds and Notes.....	\$ 19,573,542	\$ 5,451,967	\$ (6,162,806)	\$ -	\$ 18,862,703	\$ 2,121,957
Compensated Absences.....	255,934	-	-	141,255	397,189	279,405
Total.....	<u>\$ 19,829,476</u>	<u>\$ 5,451,967</u>	<u>\$ (6,162,806)</u>	<u>\$ 141,255</u>	<u>\$ 19,259,892</u>	<u>\$ 2,401,362</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund’s long term liabilities are included as part of the governmental activities totals above. At fiscal year end, \$5,196,000 of internal service funds accrued liabilities is included above. Except for the amounts related to the internal service funds and a portion of the bonds, the governmental activities long-term liabilities are generally liquidated by the general fund.

**NOTE 9 – RISK FINANCING**

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

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

(a) *Health Insurance*

The estimate of Incurred But Not Reported (IBNR) claims based on a two month claims paid average. The Town purchases individual stop loss insurance for claims in excess of the coverage provided by the Town in the amount of \$300,000.

At June 30, 2004, the amount of the liability for health insurance claims totaled \$2,200,000. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2002, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2003.....	\$ 1,600,000	\$ 12,572,407	\$ (12,472,407)	\$ 1,700,000
Fiscal Year 2004.....	1,700,000	15,022,939	(14,522,939)	2,200,000

(b) *Workers’ Compensation*

Workers’ compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The Town purchases individual stop loss insurance for claims in excess of the coverage provided by the Town in the amount of \$300,000. The estimated future workers’ compensation liability is based on history and injury type.

At June 30, 2004, the amount of the liability for workers' compensation claims totaled \$2,996,000. Changes in the reported liability since July 1, 2002, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2003.....	\$ 2,295,000	\$ 1,530,406	\$ (1,071,406)	\$ 2,754,000
Fiscal Year 2004.....	2,754,000	1,215,300	(973,300)	2,996,000

#### NOTE 10 - PENSION PLAN

*Plan Description* - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Brookline Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$7,884,000 for the fiscal year ended June 30, 2004, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Brookline Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at Brookline Town Hall, 333 Washington Street, Brookline, Massachusetts 02146.

*Funding Policy* - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute approximately 97%, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

*Annual Pension Cost* - The Town contributions to the System for the fiscal years ended June 30, 2004, 2003 and 2002 were approximately \$9,300,000, \$8,700,000 and \$8,000,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2004, the Town did not have a net pension obligation. The required contribution was determined as part of an actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.25% investment rate of return and projected salary increases of 5.0% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2004 was 19 years.

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/03	\$ 177,153,465	\$ 265,441,629	\$ 88,288,164	66.7%	\$ 52,378,086	168.6%
1/1/02	171,285,347	250,478,343	79,192,996	68.4%	45,109,610	175.6%
1/1/00	160,983,529	217,964,030	56,980,501	73.9%	43,028,894	132.4%
1/1/98	121,604,190	192,305,540	70,701,350	63.2%	40,150,666	176.1%
1/1/96	93,285,890	156,258,190	62,972,300	59.7%	36,686,332	171.7%

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The Town is responsible for approximately 97% of the unfunded liability.

*Noncontributory Retirement Allowance* – The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2004 totaled approximately \$338,500.

**NOTE 11 - LANDFILL CLOSURE COSTS**

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town operated a solid waste landfill that ceased operations in 1972. The Town has reflected \$9,412,000 as the estimate of the landfill closure liability at June 30, 2004. This amount is based on estimates of what it would cost to perform all future closure and post closure care in fiscal year 2004. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 12 – INTERFUND LOAN**

On June 12, 2001, The General Fund issued an interest free note in the amount of \$500,000 to Putterham Meadows Golf Club Enterprise Fund to meet projected and capital expenses. The note is payable at \$25,000 per year, due on July 1 of each year. At June 30, 2004 the outstanding loan balance was \$450,000.

**NOTE 13 - COMMITMENTS**

The Town has entered into a long-term contract with Arthur Schofield, Inc. to direct the acceptable waste it collects to a transfer station. The Town is charged a flat rate per ton that is subject to increase annually. There are no minimum tonnage requirements that the Town must comply with.

The Town has entered into a long-term contract with Browning Ferris Industries to provide recycling services. The Town is charged a flat rate of \$73.10 per ton of acceptable waste collected and hauled. There are no minimum tonnage requirements that the Town must comply with.

The School Department has entered into two agreements with Laidlaw Transit, Inc. to provide for regular transportation and Lawrence School transition transportation of its students. The contract bears an annual cost of

approximately \$386,600 and \$247,500, respectively. The regular school transportation contract expires June 30, 2005 and the Lawrence School transition transportation contract expired June 30, 2004.

The School Department has also entered into an agreement with Y.C.N. Transportation, Inc. to provide transportation of its special needs students. The contract bears an annual cost of approximately \$851,000 and expires June 30, 2005.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$28,000,000 for the remodeling/renovations of the Lawrence school, the upgrading and replacing of water meters, reconstruction of Beacon Street, closure and post-closure costs associated with the Town's landfill, and renovations of the Putterham golf course.

#### **NOTE 14 - 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, 2004, 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, 2004, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2004.

#### **NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2004, the following GASB pronouncements were implemented:

The GASB issued Statement #39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement #14. Management has determined that no significant organizations, other than the Pension Trust, meet the criteria to be a component unit.

##### ***Future Implementation of GASB Pronouncements:***

The GASB issued Statement #40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3, which is required to be implemented during fiscal year 2005. This pronouncement will only require changes to the note disclosure.

The GASB issued Statement #42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which is required to be implemented in Fiscal 2006. Management does not believe that this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in Fiscal 2007. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

The GASB issued Statement #44, Economic Condition Reporting: The Statistical Section, which is required to be implemented in Fiscal 2006. This new GASB establishes and modifies requirements related to supplementary

information presented in a statistical section. The presentation of a statistical section is not required by this pronouncement. This pronouncement will not impact the basic financial statements.

The GASB issued Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which is required to be implemented in Fiscal 2008. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

***Required Supplementary Information***

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

FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 113,396,544	\$ 113,396,544	\$ 113,396,544
Motor vehicle and other excise taxes.....	-	5,000,000	5,000,000	5,000,000
Hotel/motel tax.....	-	650,000	650,000	650,000
Charges for services.....	-	3,431,300	3,431,300	3,431,300
Penalties and interest on taxes.....	-	199,500	199,500	199,500
Payments in lieu of taxes.....	-	738,000	738,000	738,000
Licenses and permits.....	-	3,063,086	3,063,086	3,063,086
Fines and forfeitures.....	-	3,813,200	3,813,200	3,813,200
Intergovernmental.....	-	16,356,864	16,356,864	16,356,864
Departmental and other.....	-	58,500	58,500	58,500
Investment income.....	-	785,225	785,225	785,225
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>147,492,219</b>	<b>147,492,219</b>	<b>147,492,219</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	1,074,863	10,263,382	11,338,245	9,327,338
Public safety.....	1,216,108	28,432,368	29,648,476	30,702,791
Education.....	4,447,593	54,139,732	58,587,325	58,587,325
Public works.....	6,469,362	15,040,358	21,509,720	22,061,398
Human services.....	57,487	1,881,648	1,939,135	1,989,325
Leisure services.....	1,632,154	5,159,110	6,791,264	6,940,161
Pension benefits.....	-	9,310,000	9,310,000	9,310,000
Employee benefits.....	8,042	17,306,267	17,314,309	17,486,809
State and county charges.....	-	5,451,037	5,451,037	5,451,037
Debt service:				
Principal.....	-	6,257,712	6,257,712	6,257,712
Interest.....	-	4,488,265	4,488,265	4,488,265
<b>TOTAL EXPENDITURES.....</b>	<b>14,905,609</b>	<b>157,729,879</b>	<b>172,635,488</b>	<b>172,602,161</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(14,905,609)</b>	<b>(10,237,660)</b>	<b>(25,143,269)</b>	<b>(25,109,942)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from refunding bonds.....	-	-	-	-
Premium from issuance of bonds, net of expenditures.....	-	-	-	-
Payments to refunded bond escrow agent.....	-	-	-	-
Transfers in.....	-	4,951,154	4,951,154	4,951,154
Transfers out.....	-	(316,455)	(316,455)	(349,782)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>4,634,699</b>	<b>4,634,699</b>	<b>4,601,372</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(14,905,609)</b>	<b>(5,602,961)</b>	<b>(20,508,570)</b>	<b>(20,508,570)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>39,668,550</b>	<b>39,668,550</b>	<b>39,668,550</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (14,905,609)</b>	<b>\$ 34,065,589</b>	<b>\$ 19,159,980</b>	<b>\$ 19,159,980</b>

See notes to basic financial statements.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 114,359,869	\$ -	\$ 963,325
5,038,714	-	38,714
603,576	-	(46,424)
3,815,313	-	384,013
417,885	-	218,385
1,016,388	-	278,388
3,145,966	-	82,880
3,957,036	-	143,836
16,410,301	-	53,437
159,613	-	101,113
737,181	-	(48,044)
<u>149,661,842</u>	<u>-</u>	<u>2,169,623</u>
7,906,033	1,132,492	288,813
27,998,032	2,386,624	318,135
54,228,777	4,332,789	25,759
15,224,311	7,215,172	(378,085)
1,943,539	44,354	1,432
4,624,491	1,675,573	640,097
9,239,869	-	70,131
17,151,762	40,354	294,693
5,460,231	-	(9,194)
6,257,712	-	-
4,122,420	-	365,845
<u>154,157,177</u>	<u>16,827,358</u>	<u>1,617,626</u>
<u>(4,495,335)</u>	<u>(16,827,358)</u>	<u>3,787,249</u>
4,183,468		4,183,468
138,739		138,739
(4,253,642)		(4,253,642)
4,906,892		(44,262)
(349,782)		-
<u>4,625,675</u>	<u>-</u>	<u>24,303</u>
130,340	(16,827,358)	3,811,552
39,668,550	-	-
<u>\$ 39,798,890</u>	<u>\$ (16,827,358)</u>	<u>\$ 3,811,552</u>

**NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

A. Budgetary Information

Municipal Law requires the Town to adopt a balanced budget that is approved at the Annual Town Meeting. The Advisory Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted for each department by four major appropriation units, which are personal services, expenses, debt service and capital outlay that are mandated by Municipal Law. The Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Amendments to the originally adopted budget and transfers between departments require the approval of Town Meeting. Transfers between appropriation units within a department (except for the School Department and Library) require the approval of the Town Administrator, and are subject to certain restrictions that may require authorization from the Board and Advisory Committee. Expenditures within the appropriation of the School Department are not restricted. Transfers between Library appropriation units require the approval of the Board of Library Trustees.

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2004, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ 130,340
<u>Basis of accounting differences:</u>	
Recognition of expenditures on modified accrual basis.....	(794,308)
Tax refunds payable.....	<u>(922,000)</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	<u>\$ (1,585,968)</u>

C. Appropriation Deficits

During fiscal year 2004, expenditures exceeded budgeted appropriations for public works and state and county charges. These deficits will be funded through tax levy and available funds in fiscal year 2005.

***TOWN OF BROOKLINE, MASSACHUSETTS***

***REPORTS ON FEDERAL AWARD PROGRAMS***

***FISCAL YEAR ENDED JUNE 30, 2004***

**TOWN OF BROOKLINE, MASSACHUSETTS**  
**REPORTS ON FEDERAL AWARD PROGRAMS**  
**FISCAL YEAR ENDED JUNE 30, 2004**

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323 New Boston Street  
Woburn, MA 01801  
T 781 937 9322  
F 781 937 9474

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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Board of Selectmen  
Town of Brookline, Massachusetts

We have audited the basic financial statements of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 24, 2004, which expresses an unqualified opinion. 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.

### **Compliance**

As part of obtaining reasonable assurance about whether the Town of Brookline's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Town of Brookline's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Town of Brookline in a separate letter dated November 24, 2004.

This report is intended solely for the use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

November 24, 2004



323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

[www.powersandsullivan.com](http://www.powersandsullivan.com)

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Honorable Board of Selectmen  
Town of Brookline, Massachusetts

## **Compliance**

We have audited the compliance of the Town of Brookline, Massachusetts, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. The Town of Brookline's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Brookline's management. Our responsibility is to express an opinion on the Town of Brookline's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Brookline's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Brookline's compliance with those requirements.

In our opinion, the Town of Brookline, Massachusetts, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004.

## **Internal Control Over Compliance**

The management of the Town of Brookline, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Brookline's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Powers + Sullivan".

November 24, 2004



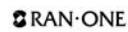
323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

[www.powersandsullivan.com](http://www.powersandsullivan.com)

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## INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Board of Selectmen  
Town of Brookline, Massachusetts

We have audited the basic financial statements of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 24, 2004, which expresses an unqualified opinion. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

November 24, 2004

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through State Department of Education:</u>		
Food Distribution	10.550	\$ 61,225
School Lunch Program	10.553	239,197
School Breakfast Program	10.555	48,748
TOTAL AGRICULTURE		<u>349,170</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Passed through State Office for Communities and Development:</u>		
Community Development Block Grant	14.218	1,384,768
Home Investment Partnership Act	14.239	26,968
TOTAL HOUSING AND URBAN DEVELOPMENT		<u>1,411,736</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Passed through State Department of Justice:</u>		
Joint Drug Enforcement Grant	16.579	49,646
Pine Manor Partnership	16.588	17,540
Violence Against Women	16.590	59,724
Advancing Community Policing	16.710	1,672
Cops More	16.710	3,540
Local Law Enforcement Block Grant	16.592	8,320
Cops School Based Partnership	16.710	2,626
Drug Free Communities	93.276	59,455
TOTAL JUSTICE		<u>202,523</u>
U.S. DEPARTMENT OF TRANSPORTATION		
<u>Passes through State Department of Highway Safety Administration:</u>		
Increasing Seat Belt Use	20.600	12,894
TOTAL TRANSPORTATION		<u>12,894</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
<u>Passed through Massachusetts Emergency Management Agency:</u>		
Hazardous Materials Transportation	20.703	250
TOTAL EMERGENCY MANAGEMENT		<u>250</u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department</u>		
<u>of Education:</u>		
Title I Distribution	84.010	678,603
SPED 94-142 Allocation	84.027	1,361,108
SPED Early Childhood Allocation	84.027	12,450
SPED Corrective Action	84.027	8,250
Occupational Education	84.048	51,303
Vocational Rehabilitation	84.126	1,401
Preschool Incentive Distribution	84.173	46,781
Homeless Children Education	84.173	10,369
Drug Free Schools	84.186	31,623
Fund for the Improvement of Education-Elementary School Counseling Program	84.215	148,173
Fund for the Improvement of Education-Teaching American History	84.215	226,096
Innovative Education Grant/Title V	84.298	61,773
Enhancing Education Through Technology	84.318	19,404
GEAR UP	84.344	147,770
English Language Acquisition	84.365	107,352
Teacher & Principal Training/Recruiting	84.367	<u>199,244</u>
 TOTAL EDUCATION		 <u>3,111,700</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
<u>Passed through Massachusetts Department</u>		
<u>of Public Health:</u>		
Emergency Preparedness	93.003	16,967
First Responder Program	93.283	<u>690</u>
 TOTAL HEALTH AND HUMAN SERVICES		 <u>17,657</u>
SOCIAL SECURITY ADMINISTRATION:		
<u>Passed through Massachusetts Rehabilitation Commission:</u>		
Vocational Rehabilitation Determination	96.001	<u>55</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
<u>Passed through Massachusetts Emergency Management Agency:</u>		
Homeland Security Grant	97.004	251,942
December 6-7, 2003 Snowstorm Removal	97.036	139,564
Emergency Operations Planning	97.051	2,832
Community Emergency Response Teams	97.054	<u>4,414</u>
 TOTAL EMERGENCY MANAGEMENT		 <u>398,752</u>
 TOTAL		 <u>\$ 5,504,737</u>

See notes to schedule of expenditures of federal awards.

**Note 1 - Definition of Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Brookline, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

**Note 2 - Significant Accounting Policies**

The accounting and reporting policies of the Town of Brookline, Massachusetts, are set forth below:

- (a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.
- (b) School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.

**A. Summary of Auditors' Results**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Town of Brookline, Massachusetts.
2. No reportable conditions relating to the audit of the basic financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the basic financial statements of the Town of Brookline, Massachusetts, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Town of Brookline, Massachusetts, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Brookline, Massachusetts.
7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
Community Development Block Grant	14.218

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Brookline, Massachusetts, was determined to be a low-risk auditee.

**B. Findings-Financial Statements Audit**

None

**C. Findings and Questioned Costs-Major Federal Award Program Audit**

None

**D. Prior Year Audit Findings and Questioned Costs**

None

***TOWN OF BROOKLINE, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2004***

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323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

[www.powersandsullivan.com](http://www.powersandsullivan.com)

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To the Honorable Board of Selectmen  
Town of Brookline, Massachusetts

We are presenting, for your consideration, our comments and recommendations regarding the Town of Brookline, Massachusetts' internal control structure and other matters. This management letter is critical in nature and does not identify the strengths of the financial systems.

As part of our audit of the general purpose financial statements of the Town of Brookline, Massachusetts for the year ended June 30, 2004, we considered the Town's internal accounting structure for the purpose of rendering an opinion on the Town's general purpose financial statements. Our consideration of the internal control structure did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the Town's internal control structure to prevent or detect all errors and irregularities.

Our consideration of the Town's internal control structure, made for the limited purpose described above, disclosed no condition that we believe to be a material weakness. However, certain matters came to our attention that we want to report to you. These matters discussed herein were considered by us during our audit and do not modify the opinion expressed in our auditors' report, dated November 24, 2004, on such general purpose financial statements.

This report is intended solely for the information and use of management of the Town of Brookline and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss these comments and recommendations in greater detail or otherwise assist in their implementation.

November 24, 2004

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TOWN OF BROOKLINE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2004

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# ***COMMENTS***

## **CAPITAL ASSETS REPORTING**

### Comment

The Town has historically maintained their capital assets in accordance with the Governmental Accounting Standards Board (GASB) requirements. In FY02 the Town implemented GASB Statement #34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments that changed the requirements of how capital assets are reported.

The major changes required assets to be depreciated and the recording of infrastructure for the first time. The Town completed a comprehensive review of all capital assets and was able to meet the new requirements. GASB 34 allowed communities the option to delay recording the retroactive general infrastructure assets for a period of up to four years. In FY04 the Town completed the process to record its infrastructure which is before the required implementation date.

Prior to FY04 the Town maintained the cost and depreciation of its capital assets on an excel spreadsheet. Due to the number of assets owned by the Town this method is cumbersome, prone to error and difficult to maintain. Subsequent to year end the Town converted its capital asset accounting to the MUNIS module. During the conversion the Town experienced software problems along with the fact the initial conversion is difficult and time consuming. This one time process delayed the completion of the capital assets and resulted in a delay in completion of the audit.

With the new system in place the Town must develop procedures to maintain additions and deletions on a monthly basis as designed in the MUNIS software. Proper maintenance will allow for an efficient and timely year-end closing. The Town also needs to design procedures to maintain its infrastructure assets that are accounted for in a different manner.

Finally, the Town must perform a periodic inventory of its assets to insure that retirements and transfers of capital assets are recorded on a timely basis. Currently that process is not being done.

### Recommendation

We recommend management document its internal control procedures as it relates to capital assets. The documentation should include capitalization thresholds, recording asset activity on MUNIS, recording construction in progress activity, recording infrastructure, and periodic inventory procedures.

### Management Response

Documentation relating to thresholds was provided to departments when the new thresholds were established during the GASB34 initial year changes. Documentation relating to the actual MUNIS process was created during the 2004 fixed asset addition process. We are currently in the process of editing both sets of documentation prior to placing them on the Town Intranet page where users can address them.

Because of the late conversion of the historical data (prior to 2004, formerly kept on spreadsheets), we were unable to do the 2004 adds until after the fiscal year had ended. 2005 fiscal year data for the first quarter has already been added to fixed assets.

## **SCHOOL LUNCH FUND**

### Comment

At the end of fiscal year 2004 the school lunch fund has a deficit balance of approximately \$433,000. This could be the result of 1) overall operational expenditures consistently exceeding revenues, 2) school lunch revenues may have been posted to an incorrect fund or 3) expenditures that are not school lunch related may have been charged to the School Lunch fund 4) revenues for FY04 not being recorded until receipt in FY05.

This represents a situation in which the Town's free cash will be adversely affected by the amount of the deficit. If a permanent deficit is found to exist, this deficit will need to be funded from the General Fund.

### Recommendation

We recommend that management review the operations of the School Lunch fund and determine if a permanent deficit exists. If a permanent deficit is found to exist, this deficit will need to be funded from the General Fund. If there is a structural deficit that current revenues are not sufficient to cover current expenditures then School management must develop a business plan were expenditures are funded through a combination of revenues and general school subsidies.

### Management Response

The School Department has restructured the food service program through the hiring of a new, experienced Food Service Director. The restructuring has increased participation in the program thus increasing revenue. In addition, the School Department will dedicate General Fund money to subsidize the program.

## STATEMENT NO. 45 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

### Comment

In July of 2004, the Governmental Accounting Standards Board (the GASB) issued Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement improves the relevance and usefulness of financial reporting by (a) requiring a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the healthcare cost trend rate for postemployment healthcare plans, be guided by applicable actuarial standards. Failure to obtain an actuarial valuation will result in a qualification to the independent auditors' opinion on the basic financial statements.

Net OPEB obligations, if any, including amounts associated with under- or over contributions from governmental funds, should be displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statements of those funds.

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. (Because retroactive application of the measurement requirements of this Statement is not required, for most employers the OPEB liability at the beginning of the transition year will be zero.) An employer with a net OPEB obligation is required to measure annual OPEB cost equal to (a) the annual required contribution (ARC), (b) one year's interest on the net OPEB obligation, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or over contributions.

This Statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The Town is required to implement this statement in fiscal 2008 although earlier implementation is encouraged.

### Recommendation

We recommend that management take a proactive approach to the planning and implementation of GASB Statement No.45. The most important consideration in the planning process is obtaining an actuarial valuation.