

TOWN OF BROOKLINE, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2005

TOWN OF BROOKLINE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2005

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TOWN of BROOKLINE

Massachusetts

BOARD OF SELECTMEN

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Letter of Transmittal

October 13, 2005

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, 2005 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, 2005, 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 that the Town of Brookline's financial statements for the fiscal year ended June 30, 2005, 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 the 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 | Jennifer Dopazo | Appointed - 3 years | 2008 |

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%).

Residential property comprises 91% of the full and fair value of the property in Brookline and they are responsible for 84.3% 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 | \$ 10.23 per thousand |
| Commercial | \$ 16.61 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 \$12.6 billion) has increased a significant 84% since FY2000 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 more than \$2 million annually over the past five years. Per capita market value of \$218,054 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's FY2006 – FY2011 Capital Improvement Program (CIP) has identified approximately \$73.2 million in capital improvements needed over the next 6 years. Large components of this total include the following:

- ✚ upgrade and maintenance of our waste water system (\$6 million), which will be borne by the water and sewer rates rather than the tax levy.
- ✚ replacement of all water meters (\$2 million), which will be borne by the water and sewer rates rather than the tax levy
- ✚ major renovations to two school buildings: the Runkle School (\$7.7 million) and the Devotion School (\$24 million). Over the past decade, a number of major school projects have 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 (\$4.6 million), of which just \$1.35 million is Town-funded.
- ✚ repairs to and rehabilitation of the Town's streets and sidewalks (\$11.3 million).

On the Town's operating side, the fiscal difficulties at the State level will likely continue to impact the delivery of Town services. Similar to what happened in during the FY03 – FY05 period, 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 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 more than 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 promised 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.

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 \$750,000. 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 64% 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.

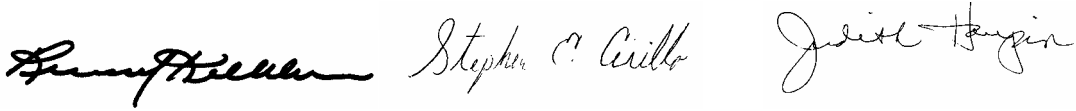
The Town of Brookline also provides postretirement health care benefits for certain retirees and their dependents. There were 1,254 retired employees and/or spouses receiving these benefits, which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial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

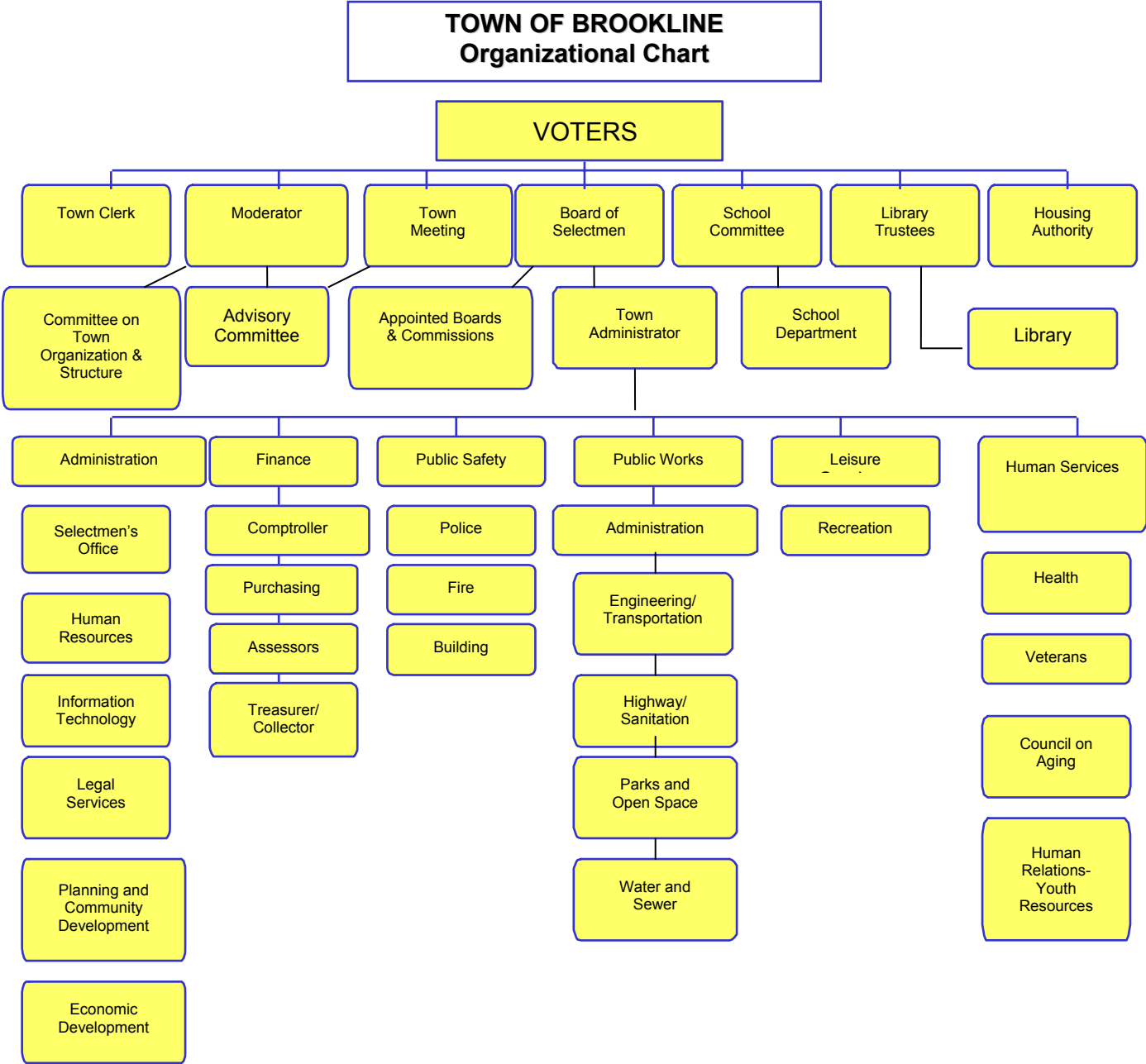
Three handwritten signatures in black ink are arranged horizontally. The first signature on the left is 'Richard J. Kelliher', the middle one is 'Stephen Cirillo', and the one on the right is 'Judith A. Haupin'.

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 | Broadband Monitoring Committee | Advisory Council on Public Health |
| Board of Examiners | Human Resources Board | Solid Waste Advisory Committee | Brookline Access Television | Commission for the Disabled |
| Building Commission | Registrars of Voters | Transportation Board | Celebrations Committee | Commission for Women |
| Economic Development Advisory Board | Retirement Board | Tree Planting Committee | Brookline Commission for the Arts | Council on Aging |
| Housing Advisory Board | Information Technology Advisory Committee | Trustees of Walnut Hills Cemetery | Park and Recreation Commission | Holocaust Memorial Committee |
| Planning Board | | | | Human Relations Youth Resources |
| Preservation Commission | | | | |



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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the accompanying basic 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, 2005 (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2004), which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Brookline, Massachusetts' management. Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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, 2005 (except for the Brookline Contributory Retirement System which is as of December 31, 2004), 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, 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, and the schedule of revenues, expenditures and changes in fund balance - general fund – budget and actual, located after the notes to the basic financial statements, 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 "Bowers + Sullivan".

September 30, 2005

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, 2005. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these 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.

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 and economic development, leisure services, pension benefits, property and liability insurance, fringe 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 \$193,093,501 at the close of FY2005.

Net assets of \$127,123,745 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.

\$22,102,820 represents resources that are subject to external restrictions on expenditures. The remaining balance of *unrestricted net assets* of \$43,866,936 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 approximately \$5 million, 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 \$7,446,373 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.

| | FY 2005 | FY 2004 | FY 2003 |
|--|-----------------------|-----------------------|-----------------------|
| | Governmental | Governmental | Governmental |
| | Activities | Activities | Activities |
| | <hr/> | <hr/> | <hr/> |
| Assets: | | | |
| Current assets..... | \$ 109,748,879 | \$ 97,714,588 | \$ 96,467,107 |
| Noncurrent assets (excluding capital)..... | 37,121,600 | 43,729,000 | 37,853,000 |
| Capital assets..... | 175,608,912 | 173,442,564 | 161,659,701 |
| Total assets..... | 322,479,391 | 314,886,152 | 295,979,808 |
| Liabilities: | | | |
| Current liabilities (excluding debt)..... | 18,356,911 | 21,464,978 | 15,499,828 |
| Noncurrent liabilities (excluding debt)..... | 14,020,378 | 14,756,314 | 13,634,967 |
| Current debt..... | 18,598,456 | 17,999,130 | 20,945,891 |
| Noncurrent debt..... | 78,410,145 | 75,018,602 | 75,368,109 |
| Total liabilities..... | 129,385,890 | 129,239,024 | 125,448,795 |
| Net Assets: | | | |
| Capital assets net of related debt..... | 127,123,745 | 125,270,581 | 116,953,871 |
| Restricted..... | 22,102,820 | 22,441,837 | 20,606,066 |
| Unrestricted..... | 43,866,936 | 37,934,710 | 32,971,076 |
| Total net assets..... | \$ 193,093,501 | \$ 185,647,128 | \$ 170,531,013 |

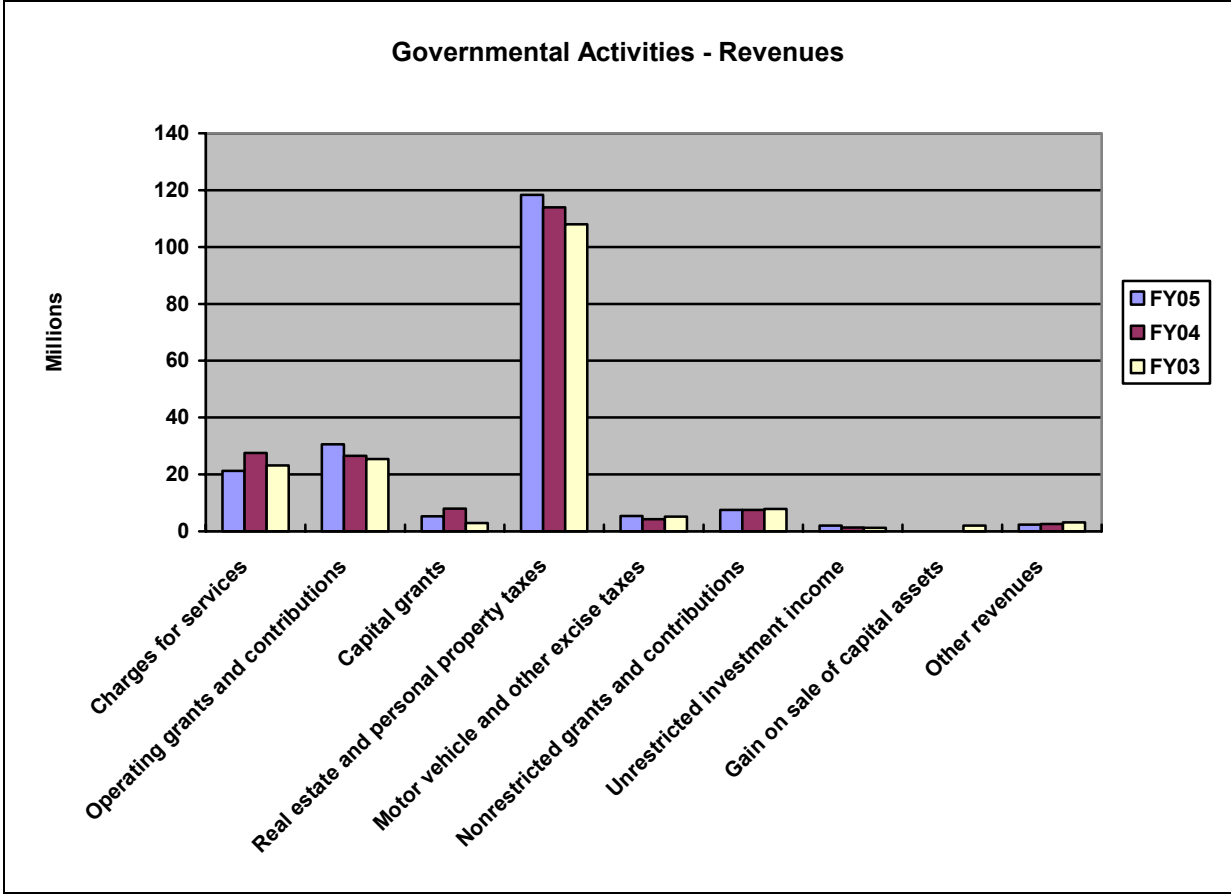
Net assets from the Town's governmental activities increased by over \$7,400,000 during fiscal year 2005. Key elements of the change are as follows:

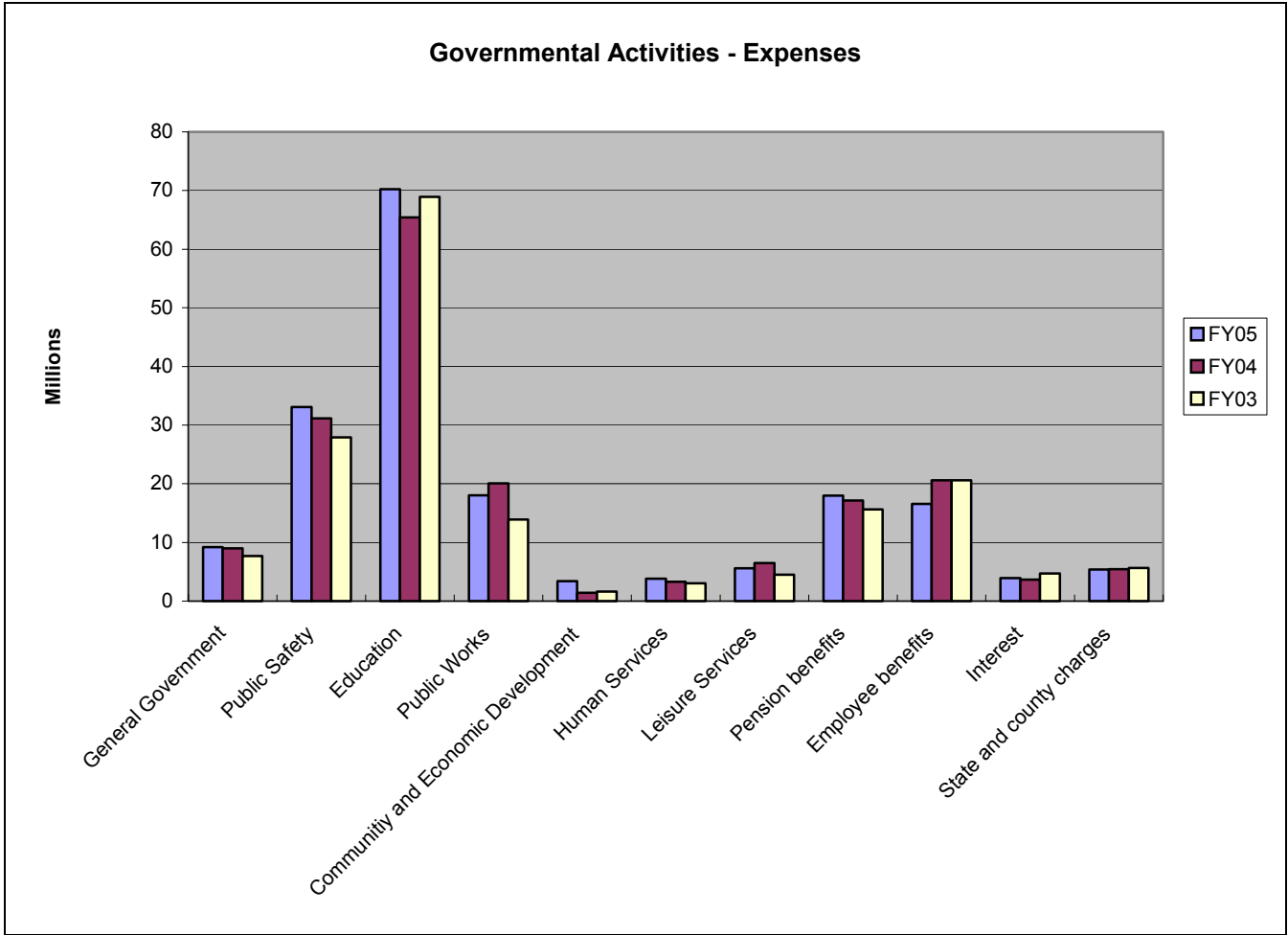
| | <u>FY 2005</u> <u>Governmental</u> <u>Activities</u> | <u>FY 2004</u> <u>Governmental</u> <u>Activities</u> | <u>FY 2003</u> <u>Governmental</u> <u>Activities</u> |
|---|---|---|---|
| Program revenues: | | | |
| Charges for services..... | \$ 21,354,305 | \$ 26,054,700 | \$ 23,188,938 |
| Operating grants and contributions..... | 30,557,686 | 26,501,444 | 25,418,590 |
| Capital grants and contributions..... | 5,259,400 | 8,017,139 | 2,958,587 |
| General Revenues: | | | |
| Real estate and personal property taxes.... | 118,294,166 | 114,633,777 | 108,027,899 |
| Motor vehicle and other excise taxes..... | 5,367,069 | 5,083,769 | 5,207,592 |
| Nonrestricted grants and contributions..... | 7,587,631 | 7,541,759 | 7,921,606 |
| Unrestricted investment income..... | 2,026,741 | 1,341,412 | 1,232,498 |
| Gain on sale of capital assets..... | - | - | 2,002,030 |
| Other revenues..... | 2,305,191 | 2,550,809 | 3,155,170 |
| Total revenues..... | <u>192,752,189</u> | <u>191,724,809</u> | <u>179,112,910</u> |
| Expenses: | | | |
| General Government..... | 9,222,573 | 8,974,389 | 7,966,535 |
| Public Safety..... | 33,041,683 | 31,182,998 | 27,923,985 |
| Education..... | 70,195,542 | 65,445,062 | 68,918,769 |
| Public Works..... | 18,019,676 | 20,060,524 | 13,895,615 |
| Community and Economic Development... | 3,410,631 | 1,420,252 | 1,604,784 |
| Human Services..... | 3,754,055 | 3,278,892 | 3,046,882 |
| Leisure Services..... | 5,562,679 | 6,467,153 | 4,504,225 |
| Pension benefits..... | 17,949,235 | 17,123,869 | 15,965,051 |
| Property and liability insurance..... | 490,669 | 457,000 | 107,400 |
| Employee benefits..... | 16,585,407 | 20,568,318 | 19,922,012 |
| Interest..... | 3,911,178 | 3,635,472 | 4,715,797 |
| Call premium of refunded bonds..... | - | - | 185,000 |
| State and county charges..... | 5,352,984 | 5,460,231 | 5,638,706 |
| Total expenses..... | <u>187,496,312</u> | <u>184,074,160</u> | <u>174,394,761</u> |
| Transfers In(Out)..... | <u>2,190,496</u> | <u>2,043,885</u> | <u>2,143,021</u> |
| Change in net assets..... | <u>\$ 7,446,373</u> | <u>\$ 9,694,534</u> | <u>\$ 6,861,170</u> |

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

Some of the major items are:

- ❖ A 3.1% increase in property tax revenue – 2.5% from recurring Proposition 2 ½ permitted increases and .6% from new additions to the tax rolls.
- ❖ \$5.3 million in grants related to new capital projects which were used to acquire capital assets.
- ❖ \$3.5 million increase in Federal and State grants.





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 \$17,926,712.

Business-type Activities. Business-type activities had an increase of \$1,661,336 in net assets related to the water and sewer operations and an increase of \$41,832 related to the golf course operations, for an overall increase in net assets of \$1,703,168 for the fiscal year. Most of this increase resulted from an increase in fixed assets exceeding depreciation of approximately \$970,000 and an overall policy of controlling operating expenses.

The following table identifies key elements of the enterprise operations:

Business-type Financial Highlights

| | <i>FY 2005</i> | <i>FY 2004</i> | <i>FY 2003</i> |
|--|------------------------------------|------------------------------------|------------------------------------|
| | <i>Business-type</i> | <i>Business-type</i> | <i>Business-type</i> |
| | <i>Activities</i> | <i>Activities</i> | <i>Activities</i> |
| | <u> </u> | <u> </u> | <u> </u> |
| Assets: | | | |
| Current assets..... | \$ 6,487,942 | \$ 7,855,409 | \$ 7,369,090 |
| Capital assets..... | 36,658,476 | 35,432,589 | 35,600,111 |
| Total assets..... | <u>43,146,418</u> | <u>43,287,998</u> | <u>42,969,201</u> |
| Liabilities: | | | |
| Current liabilities (excluding debt)..... | 838,246 | 552,489 | 1,041,859 |
| Noncurrent liabilities (excluding debt)..... | 109,236 | 117,785 | 116,294 |
| Current debt..... | 2,122,632 | 2,121,957 | 1,864,627 |
| Noncurrent debt..... | 14,618,115 | 16,740,746 | 17,661,891 |
| Total liabilities..... | <u>17,688,229</u> | <u>19,532,977</u> | <u>20,684,671</u> |
| Net Assets: | | | |
| Capital assets net of related debt..... | 19,917,729 | 16,569,886 | 16,073,593 |
| Unrestricted..... | 5,540,460 | 7,185,135 | 6,210,937 |
| Total net assets..... | <u>25,458,189</u> | <u>23,755,021</u> | <u>22,284,530</u> |
| Program revenues: | | | |
| Charges for services..... | 21,664,557 | 21,521,731 | 20,829,453 |
| Capital grants and contributions..... | - | 536,265 | - |
| Total revenues..... | <u>21,664,557</u> | <u>22,057,996</u> | <u>20,829,453</u> |
| Expenses: | | | |
| Golf..... | 1,026,963 | 926,019 | 1,016,535 |
| Water and sewer..... | 16,743,930 | 17,617,601 | 16,905,158 |
| Total expenses..... | <u>17,770,893</u> | <u>18,543,620</u> | <u>17,921,693</u> |
| Transfers In/(Out)..... | <u>(2,190,496)</u> | <u>(2,043,885)</u> | <u>(2,143,021)</u> |
| Change in net assets..... | <u>\$ 1,703,168</u> | <u>\$ 1,470,491</u> | <u>\$ 764,739</u> |

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, 2005 amount to \$212,267,388 (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.

The net increase in the Town of Brookline's investment in capital assets for the current year was \$3,392,235, including \$2,166,348 increase for governmental activities and a \$1,225,887 increase 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 \$2,400,000 was spent, net of insurance proceeds, on the remodeling of the Lawrence School, a project begun in 1999.
- ❖ Over \$600,000 was spent on land improvements.
- ❖ Over \$300,000 was spent on water, sewer, and surface drainage system construction and replacement.
- ❖ Over \$1,800,000 was spent on machinery and equipment.
- ❖ Over \$2,000,000 was spent on street and sidewalk projects.

| Town of Brookline's Capital Assets | | | | | | |
|---|---------------------|--------------------|-----------------------|-------------------|--------------------|--------------------|
| (Net of Depreciation) | | | | | | |
| | Governmental | | Business –Type | | Total | |
| | Activities | | Activities | | | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Land | 79,727 | 79,727 | - | - | 79,727 | 79,727 |
| Construction in Progress | 440,540 | 10,781,666 | - | - | 440,540 | 10,781,666 |
| Land Improvements | 10,300,301 | 10,277,087 | 961,748 | 998,570 | 11,262,049 | 11,275,657 |
| Buildings | 140,948,004 | 128,607,756 | 3,083,120 | 3,157,268 | 144,031,124 | 131,765,024 |
| Machinery and Equipment | 8,982,973 | 9,746,373 | 807,556 | 970,067 | 9,790,529 | 10,716,440 |
| Infrastructure | 14,857,367 | 13,949,955 | 31,806,052 | 30,306,684 | 46,663,419 | 44,256,639 |
| Total | <u>175,608,912</u> | <u>173,442,564</u> | <u>36,658,476</u> | <u>35,432,589</u> | <u>212,267,388</u> | <u>208,875,153</u> |

Long-term Debt. At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$113,749,348. 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 \$102,249,348 is in outstanding long-term debt. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources. During fiscal 2005, the Town retired long term debt of \$8,621,087 and renewed short term debt outstanding of \$11,500,000.

In addition to the refunding bonds, the Town of Brookline, issued \$10,490,000 in general obligation bonds to finance several capital improvements. Included in these issues were the following:

- ❖ \$7,890,000 in general obligation bonds for landfill closure.
- ❖ \$2,600,000 in general obligation bonds for street construction.

The enterprise funds have \$16,740,747 in outstanding bonds that are 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, 2005

| | <i>Primary Government</i> | | |
|--|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and short-term investments..... | \$ 77,872,389 | \$ 685,412 | \$ 78,557,801 |
| Investments..... | 7,530,254 | - | 7,530,254 |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate and personal property taxes..... | 918,208 | - | 918,208 |
| Real estate tax deferrals..... | 194,776 | - | 194,776 |
| Tax liens..... | 612,299 | - | 612,299 |
| Motor vehicle excise taxes..... | 295,620 | - | 295,620 |
| User fees..... | 169,572 | - | 169,572 |
| Water and sewer fees..... | - | 6,227,530 | 6,227,530 |
| Departmental and other..... | 4,101,120 | - | 4,101,120 |
| Intergovernmental..... | 15,387,989 | - | 15,387,989 |
| Loans..... | 401,006 | - | 401,006 |
| Internal balances..... | 425,000 | (425,000) | - |
| Other assets..... | 1,840,646 | - | 1,840,646 |
| NONCURRENT: | | | |
| Intergovernmental..... | 37,121,600 | - | 37,121,600 |
| Capital assets, net of accumulated depreciation..... | 175,608,912 | 36,658,476 | 212,267,388 |
| TOTAL ASSETS..... | 322,479,391 | 43,146,418 | 365,625,809 |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 3,696,679 | 443,012 | 4,139,691 |
| Accrued liabilities..... | 1,681,123 | - | 1,681,123 |
| Accrued payroll..... | 657,128 | - | 657,128 |
| Tax refunds payable..... | 2,272,000 | - | 2,272,000 |
| Accrued interest..... | 836,596 | 133,162 | 969,758 |
| Abandoned property..... | 5,997 | - | 5,997 |
| Other liabilities..... | 1,886,654 | - | 1,886,654 |
| Customer deposits payable..... | 398,446 | - | 398,446 |
| Capital lease obligations..... | 367,998 | - | 367,998 |
| Compensated absences..... | 5,436,290 | 262,072 | 5,698,362 |
| Workers' compensation..... | 1,118,000 | - | 1,118,000 |
| Bonds and notes payable..... | 18,598,456 | 2,122,632 | 20,721,088 |
| NONCURRENT: | | | |
| Capital lease obligations..... | 97,368 | - | 97,368 |
| Landfill closure..... | 9,412,000 | - | 9,412,000 |
| Compensated absences..... | 3,521,010 | 109,236 | 3,630,246 |
| Workers' compensation..... | 990,000 | - | 990,000 |
| Bonds and notes payable..... | 78,410,145 | 14,618,115 | 93,028,260 |
| TOTAL LIABILITIES..... | 129,385,890 | 17,688,229 | 147,074,119 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt..... | 127,123,745 | 19,917,729 | 147,041,474 |
| Restricted for: | | | |
| Loans..... | 401,006 | - | 401,006 |
| Permanent funds: | | | |
| Expendable..... | 3,729,738 | - | 3,729,738 |
| Nonexpendable..... | 878,890 | - | 878,890 |
| Other purposes..... | 17,093,186 | - | 17,093,186 |
| Unrestricted..... | 43,866,936 | 5,540,460 | 49,407,396 |
| TOTAL NET ASSETS..... | \$ 193,093,501 | \$ 25,458,189 | \$ 218,551,690 |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2005

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|--|-----------------------|-------------------------|--|--|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government: | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government..... | \$ 9,222,573 | \$ 4,189,110 | \$ 446,186 | \$ - | \$ (4,587,277) |
| Public safety..... | 33,041,683 | 7,580,066 | 646,892 | - | (24,814,725) |
| Education..... | 70,195,542 | 3,609,383 | 12,838,562 | 5,259,400 | (48,488,197) |
| Public works..... | 18,019,676 | 2,622,904 | 859,520 | - | (14,537,252) |
| Community and economic development... | 3,410,631 | - | 2,630,782 | - | (79,849) |
| Human services..... | 3,754,055 | 20,890 | 2,460,767 | - | (1,272,398) |
| Leisure services..... | 5,562,679 | 1,678,148 | 303,052 | - | (3,581,479) |
| Pension benefits..... | 17,949,235 | - | 8,596,000 | - | (9,353,235) |
| Property and liability insurance..... | 490,669 | - | - | - | (490,669) |
| Fringe benefits..... | 16,585,407 | 1,653,804 | - | - | (14,931,603) |
| Interest..... | 3,911,178 | - | 1,775,925 | - | (2,135,253) |
| State and county charges..... | 5,352,984 | - | - | - | (5,352,984) |
| Total Governmental Activities..... | 187,496,312 | 21,354,305 | 30,557,686 | 5,259,400 | (130,324,921) |
| <i>Business-Type Activities:</i> | | | | | |
| Golf..... | 1,026,963 | 1,177,959 | - | - | 150,996 |
| Water and sewer..... | 16,743,930 | 20,486,598 | - | - | 3,742,668 |
| Total Business-Type Activities..... | 17,770,893 | 21,664,557 | - | - | 3,893,664 |
| Total Primary Government..... | \$ 205,267,205 | \$ 43,018,862 | \$ 30,557,686 | \$ 5,259,400 | \$ (126,431,257) |

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2005

| | Primary Government | | |
|---|----------------------------|-----------------------------|-------------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Changes in net assets: | | | |
| Net (expense) revenue from previous page..... | \$ (130,324,921) | \$ 3,893,664 | \$ (126,431,257) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 118,294,166 | - | 118,294,166 |
| Motor vehicle and other excise taxes..... | 5,367,069 | - | 5,367,069 |
| Hotel/motel tax..... | 681,126 | - | 681,126 |
| Penalties and interest on taxes..... | 380,044 | - | 380,044 |
| Payments in lieu of taxes..... | 1,009,139 | - | 1,009,139 |
| Grants and contributions not restricted to specific programs..... | 7,587,631 | - | 7,587,631 |
| Unrestricted investment income..... | 2,026,741 | - | 2,026,741 |
| Miscellaneous..... | 234,882 | - | 234,882 |
| <i>Transfers, net</i> | 2,190,496 | (2,190,496) | - |
| Total general revenues and transfers..... | 137,771,294 | (2,190,496) | 135,580,798 |
| Change in net assets..... | 7,446,373 | 1,703,168 | 9,149,541 |
| <i>Net Assets:</i> | | | |
| Beginning of year..... | 185,647,128 | 23,755,021 | 209,402,149 |
| End of year..... | \$ <u>193,093,501</u> | \$ <u>25,458,189</u> | \$ <u>218,551,690</u> |

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2005

| ASSETS | General | Lawrence School & Longwood Playground Renovations | Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------------|--|-----------------------------------|--------------------------------|
| Cash and short-term investments..... | \$ 41,734,852 | \$ 1,117,693 | \$ 32,066,033 | \$ 74,918,578 |
| Investments..... | - | - | 4,115,595 | 4,115,595 |
| Receivables, net of uncollectibles: | | | | |
| Real estate and personal property taxes..... | 918,208 | - | - | 918,208 |
| Real estate tax deferrals..... | 194,776 | - | - | 194,776 |
| Tax liens..... | 612,299 | - | - | 612,299 |
| Motor vehicle excise taxes..... | 295,620 | - | - | 295,620 |
| User fees..... | 169,572 | - | - | 169,572 |
| Departmental and other..... | 3,750,669 | - | 350,451 | 4,101,120 |
| Intergovernmental..... | 48,988,800 | - | 3,520,789 | 52,509,589 |
| Loans..... | - | - | 401,006 | 401,006 |
| Due from other funds..... | 425,000 | - | - | 425,000 |
| Other assets..... | 1,840,646 | - | - | 1,840,646 |
| TOTAL ASSETS..... | \$ 98,930,442 | \$ 1,117,693 | \$ 40,453,874 | \$ 140,502,009 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Warrants payable..... | \$ 2,672,080 | \$ 36,472 | \$ 851,658 | \$ 3,560,210 |
| Accrued liabilities..... | 1,656,057 | - | 25,066 | 1,681,123 |
| Accrued payroll..... | 655,086 | - | 2,042 | 657,128 |
| Tax refunds payable..... | 2,272,000 | - | - | 2,272,000 |
| Liabilities due depositors..... | 398,446 | - | - | 398,446 |
| Abandoned property..... | - | - | 5,997 | 5,997 |
| Other liabilities..... | 1,839,578 | - | 47,076 | 1,886,654 |
| Deferred revenues..... | 55,302,623 | - | 3,800,923 | 59,103,546 |
| Notes payable..... | - | 11,500,000 | - | 11,500,000 |
| TOTAL LIABILITIES..... | 64,795,870 | 11,536,472 | 4,732,762 | 81,065,104 |
| FUND BALANCES: | | | | |
| Reserved for: | | | | |
| Encumbrances and continuing appropriations..... | 17,926,712 | - | - | 17,926,712 |
| Loans..... | - | - | 401,006 | 401,006 |
| Perpetual permanent funds..... | - | - | 878,890 | 878,890 |
| Unreserved: | | | | |
| Designated for subsequent year's expenditures..... | 4,606,534 | - | - | 4,606,534 |
| Undesignated, reported in: | | | | |
| General fund..... | 11,601,326 | - | - | 11,601,326 |
| Special revenue funds..... | - | - | 17,635,979 | 17,635,979 |
| Capital projects funds..... | - | (10,418,779) | 13,075,499 | 2,656,720 |
| Permanent funds..... | - | - | 3,729,738 | 3,729,738 |
| TOTAL FUND BALANCES..... | 34,134,572 | (10,418,779) | 35,721,112 | 59,436,905 |
| TOTAL LIABILITIES AND FUND BALANCES..... | \$ 98,930,442 | \$ 1,117,693 | \$ 40,453,874 | \$ 140,502,009 |

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, 2005

| | | |
|---|--------------|-----------------------|
| Total governmental fund balances..... | | \$ 59,436,905 |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | | 175,608,912 |
| Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds..... | | 59,103,545 |
| 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..... | | 4,124,002 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | | (836,596) |
| 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..... | (85,508,601) | |
| Capital lease obligations..... | (465,366) | |
| Landfill closure..... | (9,412,000) | |
| Compensated absences..... | (8,957,300) | |
| Net effect of reporting long-term liabilities..... | | <u>(104,343,267)</u> |
| Net assets of governmental activities..... | | \$ <u>193,093,501</u> |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2005

| | General | Lawrence School & Longwood Playground Renovations | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|--|-----------------------------------|--------------------------------|
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 118,580,482 | \$ - | \$ - | \$ 118,580,482 |
| Motor vehicle and other excise taxes..... | 5,314,315 | - | - | 5,314,315 |
| Hotel/motel tax..... | 681,126 | - | - | 681,126 |
| Charges for services..... | 3,968,774 | - | - | 3,968,774 |
| Penalties and interest on taxes..... | 380,044 | - | - | 380,044 |
| Payments in lieu of taxes..... | 1,009,139 | - | - | 1,009,139 |
| Licenses and permits..... | 3,819,874 | - | - | 3,819,874 |
| Fines and forfeitures..... | 4,028,995 | - | - | 4,028,995 |
| Intergovernmental..... | 25,217,348 | - | 11,664,531 | 36,881,879 |
| Departmental and other..... | 388,493 | - | 8,083,894 | 8,472,387 |
| Contributions..... | - | - | 3,306,435 | 3,306,435 |
| Investment income..... | 1,236,663 | - | 606,300 | 1,842,963 |
| TOTAL REVENUES..... | 164,625,253 | - | 23,661,160 | 188,286,413 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 8,463,895 | - | 703,796 | 9,167,691 |
| Public safety..... | 33,493,825 | - | 786,336 | 34,280,161 |
| Education..... | 54,464,861 | 2,506,534 | 13,085,858 | 70,057,253 |
| Public works..... | 16,936,473 | - | 1,184,659 | 18,121,132 |
| Community and economic development..... | - | - | 3,410,631 | 3,410,631 |
| Human services..... | 1,903,444 | - | 2,054,434 | 3,957,878 |
| Leisure services..... | 4,211,930 | - | 1,150,845 | 5,362,775 |
| Pension benefits..... | 17,949,235 | - | - | 17,949,235 |
| Fringe benefits..... | 18,047,145 | - | - | 18,047,145 |
| State and county charges..... | 5,352,984 | - | - | 5,352,984 |
| Debt service: | | | | |
| Principal..... | 6,494,703 | - | 4,428 | 6,499,131 |
| Interest..... | 3,874,730 | - | - | 3,874,730 |
| TOTAL EXPENDITURES..... | 171,193,225 | 2,506,534 | 22,380,987 | 196,080,746 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | (6,567,972) | (2,506,534) | 1,280,173 | (7,794,333) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds from bonds and notes..... | - | - | 10,490,000 | 10,490,000 |
| Premium from issuance of bonds, net of expenditures... | 44,633 | - | - | 44,633 |
| Insurance recovery..... | - | 80,000 | - | 80,000 |
| Transfers in..... | 4,988,571 | - | 595,204 | 5,583,775 |
| Transfers out..... | (631,382) | - | (2,798,075) | (3,429,457) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | 4,401,822 | 80,000 | 8,287,129 | 12,768,951 |
| NET CHANGE IN FUND BALANCES..... | (2,166,150) | (2,426,534) | 9,567,302 | 4,974,618 |
| FUND BALANCES AT BEGINNING OF YEAR..... | 36,300,722 | (7,992,245) | 26,153,810 | 54,462,287 |
| FUND BALANCES AT END OF YEAR..... | \$ 34,134,572 | \$ (10,418,779) | \$ 35,721,112 | \$ 59,436,905 |

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, 2005

| | | |
|--|--------------------|---------------------|
| Net change in fund balances - total governmental funds..... | | \$ 4,974,618 |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p> | | |
| Capital outlay..... | 11,805,321 | |
| Depreciation expense..... | <u>(9,638,973)</u> | |
| Net effect of reporting capital assets..... | | 2,166,348 |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p> | | |
| | | 2,503,559 |
| <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..... | (71,115) | |
| Proceeds from bonds and notes..... | (10,490,000) | |
| Debt service principal payments..... | <u>6,499,131</u> | |
| Net effect of reporting long-term debt..... | | (4,061,984) |
| <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..... | (944,549) | |
| Net change in accrued interest on long-term debt..... | <u>(36,448)</u> | |
| Net effect of recording long-term liabilities and amortizing deferred losses..... | | (980,997) |
| <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>2,844,829</u> |
| Change in net assets of governmental activities..... | | <u>\$ 7,446,373</u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2005

| | Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Funds |
|--|---|--------------------------|-----------------------------|---|
| | Water & Sewer | Golf Course | Total | |
| ASSETS | | | | |
| CURRENT: | | | | |
| Cash and short-term investments..... | \$ 683,678 | \$ 1,734 | \$ 685,412 | \$ 2,953,811 |
| Investments..... | - | - | - | 3,414,659 |
| Receivables, net of allowance for uncollectibles: | | | | |
| Water and sewer fees..... | 6,227,530 | - | 6,227,530 | - |
| Internal balances..... | - | (425,000) | (425,000) | - |
| Total current assets..... | <u>6,911,208</u> | <u>(423,266)</u> | <u>6,487,942</u> | <u>6,368,470</u> |
| NONCURRENT: | | | | |
| Capital assets, net of accumulated depreciation..... | <u>34,535,147</u> | <u>2,123,329</u> | <u>36,658,476</u> | <u>-</u> |
| TOTAL ASSETS..... | <u>41,446,355</u> | <u>1,700,063</u> | <u>43,146,418</u> | <u>6,368,470</u> |
| LIABILITIES | | | | |
| CURRENT: | | | | |
| Warrants payable..... | 366,597 | 76,415 | 443,012 | 136,468 |
| Accrued interest..... | 127,401 | 5,761 | 133,162 | - |
| Compensated absences..... | 245,118 | 16,954 | 262,072 | - |
| Workers' compensation..... | - | - | - | 1,118,000 |
| Bonds and notes payable..... | <u>1,967,691</u> | <u>154,941</u> | <u>2,122,632</u> | <u>-</u> |
| Total current liabilities..... | <u>2,706,807</u> | <u>254,071</u> | <u>2,960,878</u> | <u>1,254,468</u> |
| NONCURRENT: | | | | |
| Compensated absences..... | 102,757 | 6,479 | 109,236 | - |
| Workers' compensation..... | - | - | - | 990,000 |
| Bonds and notes payable..... | <u>13,605,854</u> | <u>1,012,261</u> | <u>14,618,115</u> | <u>-</u> |
| Total noncurrent liabilities..... | <u>13,708,611</u> | <u>1,018,740</u> | <u>14,727,351</u> | <u>990,000</u> |
| TOTAL LIABILITIES..... | <u>16,415,418</u> | <u>1,272,811</u> | <u>17,688,229</u> | <u>2,244,468</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt..... | 18,961,602 | 956,127 | 19,917,729 | - |
| Unrestricted..... | <u>6,069,335</u> | <u>(528,875)</u> | <u>5,540,460</u> | <u>4,124,002</u> |
| TOTAL NET ASSETS..... | <u>\$ 25,030,937</u> | <u>\$ 427,252</u> | <u>\$ 25,458,189</u> | <u>\$ 4,124,002</u> |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2005

| | Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Funds |
|---|---|-------------------|----------------------|---|
| | Water & Sewer | Golf Course | Total | |
| OPERATING REVENUES: | | | | |
| Employee contributions | \$ - | \$ - | \$ - | \$ 1,002,271 |
| Employer contributions | - | - | - | 4,253,755 |
| Charges for services | 20,486,598 | 1,177,959 | 21,664,557 | - |
| Other..... | - | - | - | 651,533 |
| TOTAL OPERATING REVENUES | 20,486,598 | 1,177,959 | 21,664,557 | 5,907,559 |
| OPERATING EXPENSES: | | | | |
| Cost of services and administration | 15,245,883 | 907,184 | 16,153,067 | - |
| Depreciation..... | 804,252 | 70,903 | 875,155 | - |
| Building insurance..... | - | - | - | 490,669 |
| Employee benefits | - | - | - | 2,792,017 |
| TOTAL OPERATING EXPENSES | 16,050,135 | 978,087 | 17,028,222 | 3,282,686 |
| OPERATING INCOME (LOSS)..... | 4,436,463 | 199,872 | 4,636,335 | 2,624,873 |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Investment income..... | - | - | - | 183,778 |
| Interest expense..... | (693,795) | (48,876) | (742,671) | - |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET..... | (693,795) | (48,876) | (742,671) | 183,778 |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS..... | 3,742,668 | 150,996 | 3,893,664 | 2,808,651 |
| OPERATING TRANSFERS: | | | | |
| Transfers in..... | - | - | - | 36,178 |
| Transfers out..... | (2,081,332) | (109,164) | (2,190,496) | - |
| TOTAL OPERATING TRANSFERS..... | (2,081,332) | (109,164) | (2,190,496) | 36,178 |
| CHANGE IN NET ASSETS..... | 1,661,336 | 41,832 | 1,703,168 | 2,844,829 |
| NET ASSETS AT BEGINNING OF YEAR..... | 23,369,601 | 385,420 | 23,755,021 | 1,279,173 |
| NET ASSETS AT END OF YEAR..... | \$ 25,030,937 | \$ 427,252 | \$ 25,458,189 | \$ 4,124,002 |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2005

| | Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Funds |
|--|---|-------------------|---------------------|---|
| | Water & Sewer | Golf Course | Total | |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | | | | |
| Receipts from customers and users..... | \$ 20,448,303 | \$ 1,177,958 | \$ 21,626,261 | \$ - |
| Receipts from interfund services provided..... | - | - | - | 1,653,804 |
| Payments to vendors..... | (13,132,837) | (614,939) | (13,747,776) | (6,746,574) |
| Payments to employees..... | (1,896,382) | (216,770) | (2,113,152) | - |
| Payments for interfund services used..... | - | - | - | 4,253,755 |
| NET CASH FROM OPERATING ACTIVITIES..... | 5,419,084 | 346,249 | 5,765,333 | (839,015) |
| <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u> | | | | |
| Transfers in..... | - | - | - | 36,178 |
| Transfers out..... | (2,081,332) | (109,164) | (2,190,496) | - |
| NET CASH FROM NONCAPITAL FINANCING ACTIVITIES..... | (2,081,332) | (109,164) | (2,190,496) | 36,178 |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u> | | | | |
| Acquisition and construction of capital assets..... | (2,101,041) | - | (2,101,041) | - |
| Principal payments on bonds and notes..... | (1,962,871) | (184,085) | (2,146,956) | - |
| Interest expense..... | (706,368) | (49,660) | (756,028) | - |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | (4,770,280) | (233,745) | (5,004,025) | - |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | | | | |
| Purchase of investments..... | - | - | - | (229,551) |
| Investment income..... | - | - | - | 183,778 |
| NET CASH FROM INVESTING ACTIVITIES..... | - | - | - | (45,773) |
| NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS..... | (1,432,528) | 3,340 | (1,429,188) | (848,610) |
| CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR..... | 2,116,206 | (1,606) | 2,114,600 | 3,802,421 |
| CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR..... | \$ 683,678 | \$ 1,734 | \$ 685,412 | \$ 2,953,811 |
| <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u> | | | | |
| Operating income (loss)..... | \$ 4,436,463 | \$ 199,872 | \$ 4,636,335 | \$ 2,624,873 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation..... | 804,252 | 70,903 | 875,155 | - |
| Changes in assets and liabilities: | | | | |
| Charges for services receivable..... | (38,295) | - | (38,295) | - |
| Prepaid expenses..... | 1,573 | - | 1,573 | 975,000 |
| Warrants payable..... | 248,034 | 68,413 | 316,447 | (528,943) |
| Accrued liabilities..... | - | - | - | (250,636) |
| Health claims payable..... | - | - | - | (2,200,000) |
| Other liabilities..... | - | - | - | (571,309) |
| Accrued compensated absences..... | (32,944) | 7,062 | (25,882) | - |
| Workers' compensation..... | - | - | - | (888,000) |
| Total adjustments..... | 982,620 | 146,378 | 1,128,998 | (3,463,888) |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ 5,419,083 | \$ 346,250 | \$ 5,765,333 | \$ (839,015) |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

| | Pension Trust Fund (as of December 31, 2004) | Private Purpose Trust Funds | Agency Funds |
|--|---|-----------------------------------|-----------------|
| ASSETS | | | |
| CURRENT: | | | |
| Cash and short-term investments..... | \$ 13,114,382 | \$ 1,412,040 | \$ - |
| Investments..... | 181,872,027 | 2,651,619 | - |
| Interest and dividends..... | 392,503 | - | - |
| Receivables, net of allowance for uncollectibles: | | | |
| Departmental and other..... | 1,554,634 | - | 178,968 |
| Due from other funds..... | - | 123,777 | - |
| TOTAL ASSETS..... | 196,933,546 | 4,187,436 | 178,968 |
| LIABILITIES | | | |
| Warrants payable..... | 13,025,975 | 64 | - |
| Accrued liabilities..... | - | 191,363 | - |
| Other liabilities..... | - | - | 55,191 |
| Due to other funds..... | - | - | 123,777 |
| TOTAL LIABILITIES..... | 13,025,975 | 191,427 | 178,968 |
| NET ASSETS | | | |
| Held in trust for pension benefits and other purposes..... | \$ 183,907,571 | \$ 3,996,009 | \$ - |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2005

| | Pension Trust Fund (as of December 31, 2004) | Private Purpose Trust Funds |
|--|---|-----------------------------------|
| ADDITIONS: | | |
| Contributions: | | |
| Employer..... | \$ 9,533,000 | \$ - |
| Employee..... | 4,432,088 | - |
| Private donations..... | - | 86,423 |
| Total contributions..... | <u>13,965,088</u> | <u>86,423</u> |
| Net investment income (loss): | | |
| Net change in fair value of investments..... | 14,543,672 | - |
| Investment and dividends..... | 4,044,991 | 219,182 |
| Dividends..... | - | - |
| Total investment income (loss)..... | <u>18,588,663</u> | <u>219,182</u> |
| Less: investment expense..... | <u>(475,087)</u> | <u>-</u> |
| Net investment income (loss)..... | <u>18,113,576</u> | <u>219,182</u> |
| Intergovernmental..... | <u>1,249,264</u> | <u>-</u> |
| Transfers from other systems..... | <u>292,601</u> | <u>-</u> |
| TOTAL ADDITIONS..... | <u>33,620,529</u> | <u>305,605</u> |
| DEDUCTIONS: | | |
| Administration..... | 313,603 | - |
| Transfers to other systems..... | 307,009 | - |
| Retirement benefits and refunds..... | 17,057,465 | - |
| Educational scholarships..... | - | 171,397 |
| TOTAL DEDUCTIONS..... | <u>17,678,077</u> | <u>171,397</u> |
| CHANGE IN NET ASSETS..... | 15,942,452 | 134,208 |
| NET ASSETS AT BEGINNING OF YEAR..... | <u>167,965,119</u> | <u>3,861,801</u> |
| NET ASSETS AT END OF YEAR..... | <u>\$ 183,907,571</u> | <u>\$ 3,996,009</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 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. 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 quarterly 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.

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 2006 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, 2005, this expense/expenditure totaled approximately \$4,659,000. There were 1,266 participants eligible to receive benefits at June 30, 2005.

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 one individual fund deficit exists 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 this deficit 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.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. At fiscal year-end, the carrying amount of deposits totaled \$24,421,265 and the bank balance totaled \$26,696,933. Of the bank balance, \$702,302 was covered by Federal Depository Insurance and \$25,994,631 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2004, the carrying amount of deposits for the System totaled \$402,792 and the bank balance totaled \$13,273,108. Of the bank balance, \$100,000 was covered by Federal Depository Insurance and \$13,173,108 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2005, the Town of Brookline had the following investments:

| Investment Type | Fair Value | Maturity | | | |
|--|----------------------|-----------------|---------------------|---------------------|-------------------|
| | | Under 1 Year | 1-5 Years | 6-10 Years | Over 10 Years |
| <u>Debt Securities</u> | | | | | |
| United States Treasury..... | \$ 1,755,636 | \$ - | \$ 131,072 | \$ 1,485,982 | \$ 138,582 |
| Corporate Bonds..... | 191,916 | 4,077 | 69,580 | 68,628 | 49,631 |
| Bond Mutual Funds..... | 1,080,486 | - | 1,080,486 | - | - |
| Federal Home Loan Mortgages..... | 784,998 | - | 11,231 | 90,363 | 683,404 |
| Federal National Mortgage Association..... | 70,541 | - | 68,449 | 2,092 | - |
| Total Debt Securities..... | <u>3,883,577</u> | <u>\$ 4,077</u> | <u>\$ 1,360,818</u> | <u>\$ 1,647,065</u> | <u>\$ 871,617</u> |
| <u>Other Investments</u> | | | | | |
| Equity Securities..... | 4,251,881 | | | | |
| Equity Mutual Funds..... | 2,046,415 | | | | |
| Repurchase Agreements..... | 2,491,854 | | | | |
| MMDT..... | 53,093,031 | | | | |
| Total Investments..... | <u>\$ 65,766,758</u> | | | | |

System investment balances at December 31, 2004:

| Investment Type | Fair Value | Maturity | | | |
|---|-----------------------|-------------------|---------------------|---------------------|----------------------|
| | | Under 1 Year | 1-5 Years | 6-10 Years | Over 10 Years |
| <u>Debt Securities</u> | | | | | |
| U.S. Government Securities..... | \$ 6,694,158 | \$ - | \$ 1,673,979 | \$ 1,869,793 | \$ 3,150,386 |
| Corporate Bonds..... | 20,576,648 | 560,156 | 3,597,480 | 5,503,258 | 10,915,754 |
| Federal Home Loans..... | 588,913 | - | 201,082 | 387,831 | - |
| Federal National Mortgage Association..... | 15,928,285 | - | 320,555 | 1,704,415 | 13,903,315 |
| Governmental National Mortgage Association..... | 2,381,413 | - | 36,243 | - | 2,345,170 |
| Total Debt Securities..... | <u>46,169,417</u> | <u>\$ 560,156</u> | <u>\$ 5,829,339</u> | <u>\$ 9,465,297</u> | <u>\$ 30,314,625</u> |
| <u>Other Investments</u> | | | | | |
| Equity Securities Mutual Funds..... | 135,702,611 | | | | |
| Money Market Mutual Funds..... | 12,711,590 | | | | |
| Total Investments..... | <u>\$ 194,583,618</u> | | | | |

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Town's investments \$1,755,636 in U.S. Treasury Securities, \$191,916 in corporate bonds, \$1,080,486 in Bond Mutual Funds, \$70,541 in Federal National Mortgage Association, \$784,998 in Federal Home Loan Mortgages and \$6,298,296 in Equity Securities, the Town has custodial credit risk exposure of \$10,181,873 because the related securities are uninsured, unregistered and held by the counterparty.

The Town has an investment policy for custodial credit risk that states; 1) a maximum of 70% of the Town's portfolio can be in equity securities and further that any one security can makeup only 5% of the Town's portfolio, 2) a maximum of 50% of the Town's portfolio can be in fixed income securities, 3) a maximum of 20% of the Town's portfolio can be in cash. The policy also states that there are no limits or restrictions with respect to U.S. Government Securities and that the minimum rating of bonds shall be investment grade.

Interest Rate Risk

The Town has a formal investment policy that limits selection of investments to those appearing on the Legal List of Investments put forth by the Office of the Commissioner of Banks for the Commonwealth of Massachusetts. The Town contracts with an investment manager who assists the Town in managing the investment exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town has adopted a formal policy related to credit risk. At June 30, 2005 the Town's debt securities were rated as follows:

| Quality Ratings | Rated Debt Investments - Town's | | | | | Totals |
|-----------------|---------------------------------|-------------------|-------------------------|---------------------------------------|----|------------------|
| | United States Treasury | Corporate Bonds | Federal Home Loan Banks | Federal National Mortgage Association | | |
| AAA..... | \$ 1,755,636 | \$ 56,552 | \$ 70,541 | \$ 784,998 | \$ | 2,667,727 |
| Aa2..... | - | 16,949 | - | - | - | 16,949 |
| Aa3..... | - | 8,478 | - | - | - | 8,478 |
| A1..... | - | 11,532 | - | - | - | 11,532 |
| A2..... | - | 6,293 | - | - | - | 6,293 |
| A3..... | - | 7,133 | - | - | - | 7,133 |
| Baa1..... | - | 17,238 | - | - | - | 17,238 |
| Baa2..... | - | 50,557 | - | - | - | 50,557 |
| Baa3..... | - | 12,337 | - | - | - | 12,337 |
| Unrated..... | - | 4,847 | - | - | - | 4,847 |
| Fair Value..... | \$ <u>1,755,636</u> | \$ <u>191,916</u> | \$ <u>70,541</u> | \$ <u>784,998</u> | \$ | <u>2,803,091</u> |

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the System will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the System's investments \$6,694,158 in U.S. Treasury Securities, \$20,576,648 in corporate bonds, \$15,928,285 in

Federal National Mortgage Association, \$588,913 in Federal Home Loan Mortgages, \$2,381,413 in Government National Mortgage Association and \$135,702,611 in Equity Securities, the Town has custodial credit risk exposure of \$181,872,028 because the related securities are uninsured, unregistered and held by the counterparty.

The System has an investment policy for custodial credit risk that states the System is willing to accept a level of market risk consistent with moderate interim volatility without sacrificing the potential for long term real growth of assets. To accomplish this goal the System will utilize extensive diversification to minimize company and industry specific risks while avoiding extreme levels of volatility that could adversely affect the Systems' participants.

Interest Rate Risk

The System has a formal investment policy that establishes the objectives and constraints that govern the investment of the System's assets. The System's assets are structured to provide growth from capital gains and income, while maintaining sufficient liquidity to meet beneficiary payments. When managing assets the System at all times must be in accordance with the provisions of the Public Employee Retirement Administration Commission (PERAC), the Employee Retirement Income Security Act (ERISA) and Department of Labor regulations.

Credit Risk

The System has adopted a formal policy related to Credit Risk. At December 31, 2004 the System's debt securities were rated as follows:

| Quality Ratings | Rated Debt Investments - System's | | | | Totals |
|-----------------|-----------------------------------|----------------------|--|---------------------------------------|----------------------|
| | U.S. Government Obligations | Corporate Bonds | Governmental National Mortgage Association | Federal National Mortgage Association | |
| AAA..... | \$ 6,694,158 | \$ 7,274,509 | \$ 2,381,413 | \$ 16,517,198 | \$ 32,867,278 |
| A1..... | - | 1,880,584 | - | - | 1,880,584 |
| A2..... | - | 1,573,962 | - | - | 1,573,962 |
| A3..... | - | 591,622 | - | - | 591,622 |
| Aa1..... | - | 28,884 | - | - | 28,884 |
| Aa2..... | - | 393,226 | - | - | 393,226 |
| Aa3..... | - | 1,129,386 | - | - | 1,129,386 |
| Ba1..... | - | 177,977 | - | - | 177,977 |
| Ba2..... | - | 103,363 | - | - | 103,363 |
| Ba3..... | - | 27,752 | - | - | 27,752 |
| Baa1..... | - | 1,468,841 | - | - | 1,468,841 |
| Baa2..... | - | 3,469,507 | - | - | 3,469,507 |
| Baa3..... | - | 742,801 | - | - | 742,801 |
| Unrated..... | - | 1,714,233 | - | - | 1,714,233 |
| Fair Value..... | \$ <u>6,694,158</u> | \$ <u>20,576,647</u> | \$ <u>2,381,413</u> | \$ <u>16,517,198</u> | \$ <u>46,169,416</u> |

Concentration of Credit Risk

The System places no limit on the amount the government may invest in any one issuer. More than 5% of the Systems investments are in the following securities:

Investments in excess of 5% of the System's total investments

| <u>Issuer</u> | <u>Percentage Of Total Investments</u> |
|--|--|
| Federal National Mortgage Association..... | 8.19% |
| TBC International Pooled Fund..... | 12.98% |
| T Rowe Price Install Small Cap..... | 11.45% |
| SSGA Flagship S+P 500 Index..... | 35.24% |

NOTE 3 – RECEIVABLES

At June 30, 2005, 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:

| | <u>Gross Amount</u> | <u>Allowance for Uncollectibles</u> | <u>Net Amount</u> |
|---|-------------------------|---|-----------------------|
| <u>Receivables:</u> | | | |
| Real estate and personal property taxes.... | \$ 918,208 | \$ - | \$ 918,208 |
| Real estate tax deferrals..... | 194,776 | | 194,776 |
| Tax liens..... | 612,299 | - | 612,299 |
| Motor vehicle and other excise taxes..... | 743,465 | (447,845) | 295,620 |
| User fees..... | 169,572 | - | 169,572 |
| Departmental and other..... | 5,690,965 | (1,589,845) | 4,101,120 |
| Intergovernmental..... | 52,509,589 | - | 52,509,589 |
| Loans..... | 401,006 | - | 401,006 |
| Total..... | <u>\$ 61,239,880</u> | <u>\$ (2,037,690)</u> | <u>\$ 59,202,190</u> |

At June 30, 2005, receivables for the water and sewer enterprise funds consist of the following:

| | <u>Gross Amount</u> | <u>Allowance for Uncollectibles</u> | <u>Net Amount</u> |
|---------------------------|-------------------------|---|-----------------------|
| <u>Receivables:</u> | | | |
| Water and sewer fees..... | <u>\$ 6,227,530</u> | <u>\$ -</u> | <u>\$ 6,227,530</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:

| Type: | General Fund | Other Governmental Funds | Total |
|---|----------------------|--------------------------|----------------------|
| Real estate and personal property taxes.... | \$ 918,208 | \$ - | \$ 918,208 |
| Real estate tax deferrals..... | 194,776 | - | 194,776 |
| Tax liens..... | 612,299 | - | 612,299 |
| Motor vehicle and other excise taxes..... | 295,620 | - | 295,620 |
| User fees..... | 169,572 | - | 169,572 |
| Departmental and other..... | 4,123,348 | 27,906 | 4,151,254 |
| Intergovernmental..... | 48,988,800 | 3,773,017 | 52,761,817 |
| Total..... | <u>\$ 55,302,623</u> | <u>\$ 3,800,923</u> | <u>\$ 59,103,546</u> |

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-----------------------|----------------------|------------------------|-----------------------|
| Governmental Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 79,727 | \$ - | \$ - | \$ 79,727 |
| Construction in progress..... | 10,781,666 | 265,397 | (10,606,523) | 440,540 |
| Total capital assets not being depreciated..... | <u>10,861,393</u> | <u>265,397</u> | <u>(10,606,523)</u> | <u>520,267</u> |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | 15,671,317 | 624,364 | - | 16,295,681 |
| Buildings..... | 187,204,974 | 17,388,133 | - | 204,593,107 |
| Machinery and equipment..... | 29,721,810 | 1,829,324 | (4,313,296) | 27,237,838 |
| Infrastructure..... | 37,554,209 | 2,336,345 | (681,918) | 39,208,636 |
| Total capital assets being depreciated..... | <u>270,152,310</u> | <u>22,178,166</u> | <u>(4,995,214)</u> | <u>287,335,262</u> |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (5,394,230) | (601,150) | - | (5,995,380) |
| Buildings..... | (58,597,218) | (5,047,885) | - | (63,645,103) |
| Machinery and equipment..... | (19,975,437) | (2,561,004) | 4,281,576 | (18,254,865) |
| Infrastructure..... | (23,604,254) | (1,428,933) | 681,918 | (24,351,269) |
| Total accumulated depreciation..... | <u>(107,571,139)</u> | <u>(9,638,972)</u> | <u>4,963,494</u> | <u>(112,246,617)</u> |
| Total governmental activities capital assets, net..... | <u>\$ 173,442,564</u> | <u>\$ 12,804,591</u> | <u>\$ (10,638,243)</u> | <u>\$ 175,608,912</u> |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|--------------|-------------------|
| Water & Sewer Activities: | | | | |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | \$ 201,230 | \$ - | \$ - | \$ 201,230 |
| Buildings..... | 2,450,656 | 18,816 | (9,737) | 2,459,735 |
| Machinery and equipment..... | 2,385,550 | 142,290 | (452,007) | 2,075,833 |
| Infrastructure..... | 42,604,370 | 2,071,273 | - | 44,675,643 |
| Total capital assets being depreciated..... | 47,641,806 | 2,232,379 | (461,744) | 49,412,441 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (13,302) | (6,594) | - | (19,896) |
| Buildings..... | (660,145) | (54,039) | 9,737 | (704,447) |
| Machinery and equipment..... | (1,432,316) | (171,714) | 320,670 | (1,283,360) |
| Infrastructure..... | (12,297,686) | (571,905) | - | (12,869,591) |
| Total accumulated depreciation..... | (14,403,449) | (804,252) | 330,407 | (14,877,294) |
| Total capital assets being depreciated, net..... | \$ 33,238,357 | \$ 1,428,127 | \$ (131,337) | \$ 34,535,147 |
| | | | | |
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Golf Course Activities: | | | | |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | \$ 917,588 | \$ - | \$ - | \$ 917,588 |
| Buildings..... | 1,557,630 | - | - | 1,557,630 |
| Machinery and equipment..... | 17,500 | - | - | 17,500 |
| Total capital assets being depreciated..... | 2,492,718 | - | - | 2,492,718 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (106,946) | (30,228) | - | (137,174) |
| Buildings..... | (190,873) | (38,925) | - | (229,798) |
| Machinery and equipment..... | (667) | (1,750) | - | (2,417) |
| Total accumulated depreciation..... | (298,486) | (70,903) | - | (369,389) |
| Total capital assets being depreciated, net..... | \$ 2,194,232 | \$ (70,903) | \$ - | \$ 2,123,329 |

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

Governmental Activities:

| | |
|-------------------------|----------------|
| General government..... | \$ 137,234 |
| Public safety..... | 1,361,598 |
| Education..... | 3,974,282 |
| Public works..... | 3,478,731 |
| Human services..... | 535,909 |
| Leisure services..... | <u>151,218</u> |

Total depreciation expense - governmental activities..... \$ 9,638,972

Business-Type Activities:

| | |
|----------------------|---------------|
| Water and Sewer..... | \$ 804,252 |
| Golf..... | <u>70,903</u> |

Total depreciation expense - business-type activities..... \$ 875,155

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2005, are summarized as follows:

| Operating Transfers Out: | Operating Transfers In: | | | |
|------------------------------------|-------------------------|-----------------------------------|------------------------------|---------------------|
| | General Fund | Nonmajor Governmental Funds | Internal Service Funds | Total |
| General Fund..... | \$ - | \$ 595,204 | \$ 36,178 | \$ 631,382 |
| Nonmajor Governmental Funds..... | 2,798,075 | - | - | 2,798,075 |
| Water & Sewer Enterprise Fund..... | 2,081,332 | - | - | 2,081,332 |
| Golf Enterprise Fund..... | <u>109,164</u> | <u>-</u> | <u>-</u> | <u>109,164</u> |
| | <u>\$ 4,988,571</u> | <u>\$ 595,204</u> | <u>\$ 36,178</u> | <u>\$ 5,619,953</u> |

Transfers represent amounts voted to fund the fiscal year 2005 operating budget and to put monies in the internal service fund for unemployment claims..

NOTE 6 - CAPITAL LEASES

The Town has entered into several lease agreements to finance the acquisition of equipment with an original cost of \$1,059,918. 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, 2005, are as follows:

| <u>Fiscal Years Ending June 30</u> | <u>Governmental Activities</u> |
|--|------------------------------------|
| 2006..... | \$ 378,614 |
| 2007..... | <u>99,846</u> |
| Total minimum lease payments..... | 478,460 |
| Less: amounts representing interest..... | <u>(13,094)</u> |
| Present value of minimum lease payments..... | <u>\$ 465,366</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, 2005, is as follows:

| <u>Type</u> | <u>Purpose</u> | <u>Rate (%)</u> | <u>Due Date</u> | <u>Balance at June 30, 2004</u> | <u>Renewed/ Issued</u> | <u>Retired/ Redeemed</u> | <u>Balance at June 30, 2005</u> |
|-------------|-----------------------------------|---------------------|-----------------|---|----------------------------|------------------------------|---|
| BAN | School Remodeling - Lawrence..... | 1.43 | 04/15/05 | \$ 11,500,000 | \$ - | \$ 11,500,000 | \$ - |
| BAN | School Remodeling - Lawrence..... | 2.34 | 08/15/05 | - | 7,825,000 | - | 7,825,000 |
| BAN | School Remodeling - Lawrence..... | 2.67 | 04/13/06 | - | <u>3,675,000</u> | - | <u>3,675,000</u> |
| Total..... | | | | <u>\$ 11,500,000</u> | <u>\$ 11,500,000</u> | <u>\$ 11,500,000</u> | <u>\$ 11,500,000</u> |

The note due on August 15, 2005 was redeemed upon maturity with capital grants funds received.

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 previous fiscal years, certain general obligation bonds and enterprise fund bonds were defeased by placing the proceeds of 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 Town's basic

financial statements. At June 30, 2005, approximately \$1,900,000 of Governmental and \$1,510,000 of Enterprise Fund bonds outstanding from the advance refunding are considered defeased.

GOVERNMENTAL FUNDS

| Project | Interest Rate (%) | Outstanding at June 30, 2004 | Issued | Redeemed | Outstanding at June 30, 2005 |
|---|-------------------|------------------------------|-------------------|------------------|------------------------------|
| Inside Debt Limit | | | | | |
| Schools..... | 2.59-5.91 | \$ 28,983,367 | \$ - | \$ 3,108,641 | \$ 25,874,726 |
| General Government..... | 3.22-5.28 | 13,593,417 | 10,490,000 | 1,664,209 | 22,419,208 |
| Athletic and recreational facilities..... | 3.94-4.94 | 595,948 | - | 171,281 | 424,667 |
| Sub-total..... | | <u>43,172,732</u> | <u>10,490,000</u> | <u>4,944,131</u> | <u>48,718,601</u> |
| Outside Debt Limit | | | | | |
| Schools..... | 5.33 - 5.35 | <u>38,345,000</u> | <u>-</u> | <u>1,555,000</u> | <u>36,790,000</u> |
| Total Government Bonds and Notes Payable..... | | <u>81,517,732</u> | <u>10,490,000</u> | <u>6,499,131</u> | <u>85,508,601</u> |

ENTERPRISE FUNDS

| | | | | | |
|---|-----------|-----------------------|----------------------|---------------------|-----------------------|
| Inside Debt Limit | | | | | |
| Golf Course Enterprise Fund..... | 3.19-3.90 | 1,326,287 | - | 159,085 | 1,167,202 |
| Water Enterprise Fund..... | 3.90-6.63 | 11,340,981 | - | 1,286,784 | 10,054,197 |
| Sewer Enterprise Fund..... | 3.90-5.28 | <u>6,195,435</u> | <u>-</u> | <u>676,087</u> | <u>5,519,348</u> |
| Total Enterprise Bonds and Notes Payable..... | | <u>18,862,703</u> | <u>-</u> | <u>2,121,956</u> | <u>16,740,747</u> |
| Total Bonds and Notes Payable..... | | <u>\$ 100,380,435</u> | <u>\$ 10,490,000</u> | <u>\$ 8,621,087</u> | <u>\$ 102,249,348</u> |

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

GOVERNMENTAL FUNDS, DEBT SERVICE PAYMENTS

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|----------------------|--------------------|
| 2006..... \$ | 7,098,456 \$ | 3,642,102 \$ | 10,740,558 |
| 2007..... | 6,908,577 | 3,442,279 | 10,350,856 |
| 2008..... | 6,614,036 | 3,176,953 | 9,790,989 |
| 2009..... | 6,422,309 | 2,921,098 | 9,343,407 |
| 2010..... | 6,496,177 | 2,674,298 | 9,170,475 |
| 2011..... | 6,229,999 | 2,416,827 | 8,646,826 |
| 2012..... | 5,951,239 | 2,169,862 | 8,121,101 |
| 2013..... | 5,571,632 | 1,926,629 | 7,498,261 |
| 2014..... | 4,930,588 | 1,671,856 | 6,602,444 |
| 2015..... | 4,487,794 | 1,438,236 | 5,926,030 |
| 2016..... | 4,227,794 | 1,213,428 | 5,441,222 |
| 2017..... | 4,385,000 | 1,009,061 | 5,394,061 |
| 2018..... | 4,350,000 | 790,662 | 5,140,662 |
| 2019..... | 4,335,000 | 570,838 | 4,905,838 |
| 2020..... | 4,515,000 | 350,271 | 4,865,271 |
| 2021..... | 905,000 | 124,547 | 1,029,547 |
| 2022..... | 905,000 | 87,708 | 992,708 |
| 2023..... | 395,000 | 49,740 | 444,740 |
| 2024..... | 390,000 | 33,150 | 423,150 |
| 2025..... | 390,000 | 16,575 | 406,575 |
| Totals..... \$ | <u>85,508,601 \$</u> | <u>29,726,120 \$</u> | <u>115,234,721</u> |

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

ENTERPRISE FUNDS, DEBT SERVICE PAYMENTS

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|-------------------|
| 2006..... \$ | 2,122,632 \$ | 764,056 \$ | 2,886,688 |
| 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..... | 1,153,367 | 291,298 | 1,444,665 |
| 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>16,740,747 \$</u> | <u>4,855,784 \$</u> | <u>21,596,531</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. The Town received \$1,191,700 from this program during fiscal year 2005. 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, 2005, the outstanding principal amount of this loan totaled \$524,348.

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 2005, \$3,442,794 of such assistance was received and an additional \$5,259,400 was recognized as accrual revenue for reimbursement of the Lawrence School. Approximately \$61,949,800 will be received in future fiscal years. Of this amount, \$12,961,000 represents reimbursement of long-term interest costs, and approximately \$48,988,800 represents reimbursement of approved construction costs. Accordingly, a \$48,988,800 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, 2005, the Town had the following authorized and unissued debt:

| <u>Purpose</u> | <u>Amount</u> |
|-------------------------------|----------------------|
| Lawrence School..... | \$ 11,500,000 |
| Putterham Golf Course..... | 1,740,000 |
| Wastewater Systems..... | 3,344,565 |
| Water Meters..... | 2,000,000 |
| Storm Drain Improvements..... | 1,000,000 |
| Muddy River Project..... | 745,000 |
| Title V - MWPAT..... | 200,000 |
| Health Department..... | 4,100,000 |
| Town Hall..... | 1,260,000 |
| Skating Rink..... | <u>260,000</u> |
| Total..... | <u>\$ 26,149,565</u> |

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2005, the following changes occurred in long-term liabilities:

Governmental Funds

| | Balance June 30, 2004 | Bonds and Notes Issued | Bonds and Notes Redeemed | Other Net Increase (Decrease) | Balance June 30, 2005 | Current Portion |
|--------------------------------|-----------------------------|------------------------------|--------------------------------|-------------------------------------|-----------------------------|----------------------|
| Long-Term Bonds and Notes..... | \$ 81,517,732 | \$ 10,490,000 | \$ (6,499,131) | \$ - | \$ 85,508,601 | \$ 7,098,456 |
| Accrued Health Claims..... | 2,200,000 | - | - | (2,200,000) | - | - |
| Workers' Compensation..... | 2,996,000 | - | - | (888,000) | 2,108,000 | 1,118,000 |
| Compensated Absences..... | 8,012,751 | - | - | 944,549 | 8,957,300 | 5,436,290 |
| Landfill Closure..... | 9,412,000 | - | - | - | 9,412,000 | - |
| Total..... | \$ <u>104,138,483</u> | \$ <u>10,490,000</u> | \$ <u>(6,499,131)</u> | \$ <u>(2,143,451)</u> | \$ <u>105,985,901</u> | \$ <u>13,652,746</u> |

Business-Type Activities

| | Balance June 30, 2004 | Bonds and Notes Issued | Bonds and Notes Redeemed | Other Net Increase (Decrease) | Balance June 30, 2005 | Current Portion |
|--------------------------------|-----------------------------|------------------------------|--------------------------------|-------------------------------------|-----------------------------|---------------------|
| Long-Term Bonds and Notes..... | \$ 18,862,703 | \$ - | \$ (2,121,956) | \$ - | \$ 16,740,747 | \$ 2,122,632 |
| Compensated Absences..... | 397,189 | - | - | (25,881) | 371,308 | 262,072 |
| Total..... | \$ <u>19,259,892</u> | \$ <u>-</u> | \$ <u>(2,121,956)</u> | \$ <u>(25,881)</u> | \$ <u>17,112,055</u> | \$ <u>2,384,704</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, \$2,108,000 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 workers' compensation, unemployment 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*

As of October, 2004, the Town is no longer self insured for its health insurance activities, runoff claims still outstanding as of June 30, 2005 are deemed immaterial. Premiums related to health insurance are no longer paid out of the internal service fund but are now paid out of the appropriate funds.

As of June 30, 2005 there is no incurred but not reported liability recorded. Changes in the reported liability since July 1, 2005, 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 2004..... | \$ 1,700,000 | \$ 15,022,939 | \$ (14,522,939) | \$ 2,200,000 |
| Fiscal Year 2005..... | 2,200,000 | 2,308,272 | (4,508,272) | - |

(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 \$750,000. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2005, the amount of the liability for workers' compensation claims totaled \$2,108,000. Changes in the reported liability since July 1, 2004, 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 2004..... | \$ 2,754,000 | \$ 1,215,300 | \$ (973,300) | 2,996,000 |
| Fiscal Year 2005..... | 2,996,000 | 422,200 | (1,310,200) | 2,108,000 |

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 \$8,596,000 for the fiscal year ended June 30, 2005, 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.

At December 31, 2004, the System's membership consists of the following:

| | |
|--|-------------|
| Active members..... | 1702 |
| Inactive members..... | 539 |
| Disabled members..... | 187 |
| Retirees and beneficiaries currently receiving benefits..... | <u>655</u> |
| Total..... | <u>3083</u> |

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 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, 2005, 2004, and 2003 were approximately \$9,500,000, \$9,300,000, and \$8,700,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2005, 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 % 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, 2005 was 18 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) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 1/1/04 | \$ 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 2005 totaled approximately \$335,000.

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, 2005. This amount is based on estimates of what it would cost to perform all future closure and post closure care in fiscal year 2005. 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, 2005 the outstanding loan balance was \$425,000.

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 Eastern Bus Company and First Student, Inc. to provide for regular transportation. The contracts bear an annual cost of approximately \$278,000 and \$343,500, respectively. The regular school transportation contracts expire on August 31, 2008.

The School Department has also entered into an agreement with Y.C.N. Transportation, Inc. and Transcomm, Inc. to provide transportation of its special needs students. The contracts bear an annual cost of approximately \$531,700 and \$163,600, respectively. The special needs student transportation contracts expire on August 31, 2008.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$26,000,000 for the remodeling/renovations of the Lawrence school and Town Hall, the upgrading and replacing of water meters, storm drain improvements, 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, 2005, 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, 2005,

cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2005.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2005, the following GASB pronouncements were implemented:

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. There will be no change in the financial statements as this GASB will only require changes to the note disclosure.

Future GASB Pronouncements:

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 has yet to determine if 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. Management has yet to determine if this pronouncement will significantly 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 updates the statistical section that accompanies a state or local government's 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 has yet to determine if this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement # 46, *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. It requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This statement is required to be implemented in Fiscal 2006. Management believes that this statement will not effect on the basic financial statements.

The GASB issued Statement # 47, *Accounting for Termination Benefits*. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. This statement is required to be implemented in Fiscal 2006. Management believes that this statement will not effect on 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, 2005

| | Budgeted Amounts | | | |
|---|---|-----------------------------------|----------------------|----------------------|
| | Amounts Carried forward From Prior Year | Current Year Initial Budget | Original Budget | Final Budget |
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ - | \$ 117,075,560 | \$ 117,075,560 | \$ 117,125,560 |
| Motor vehicle and other excise taxes..... | - | 5,452,500 | 5,452,500 | 5,452,500 |
| Hotel/motel tax..... | - | 650,000 | 650,000 | 650,000 |
| Charges for services..... | - | 3,958,368 | 3,958,368 | 3,958,368 |
| Penalties and interest on taxes..... | - | 199,500 | 199,500 | 199,500 |
| Payments in lieu of taxes..... | - | 850,000 | 850,000 | 850,000 |
| Licenses and permits..... | - | 2,635,872 | 2,635,872 | 2,635,872 |
| Fines and forfeitures..... | - | 4,323,200 | 4,323,200 | 4,323,200 |
| Intergovernmental..... | - | 15,918,686 | 15,918,686 | 15,918,686 |
| Departmental and other..... | - | 194,559 | 194,559 | 194,559 |
| Investment income..... | - | 711,225 | 711,225 | 711,225 |
| TOTAL REVENUES..... | - | 151,969,470 | 151,969,470 | 152,019,470 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 1,026,690 | 11,031,448 | 12,058,138 | 9,695,961 |
| Public safety..... | 7,037,933 | 31,355,278 | 38,393,211 | 39,434,774 |
| Education..... | 454,980 | 55,817,215 | 56,272,195 | 56,272,195 |
| Public works..... | 8,203,403 | 18,276,579 | 26,479,982 | 27,629,325 |
| Human services..... | 267 | 1,908,578 | 1,908,845 | 1,955,522 |
| Leisure services..... | 63,731 | 4,365,262 | 4,428,993 | 4,526,587 |
| Pension benefits..... | - | 9,533,000 | 9,533,000 | 9,533,000 |
| Employee benefits..... | 40,354 | 18,040,600 | 18,080,954 | 18,157,954 |
| State and county charges..... | - | 5,262,677 | 5,262,677 | 5,262,677 |
| Debt service: | | | | |
| Principal..... | - | 6,494,703 | 6,494,703 | 6,494,703 |
| Interest..... | - | 4,207,560 | 4,207,560 | 4,207,560 |
| TOTAL EXPENDITURES..... | 16,827,358 | 166,292,900 | 183,120,258 | 183,170,258 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | (16,827,358) | (14,323,430) | (31,150,788) | (31,150,788) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Premium from issuance of bonds, net of expenditures..... | - | - | - | - |
| Transfers in..... | - | 4,988,571 | 4,988,571 | 4,988,571 |
| Transfers out..... | - | (631,382) | (631,382) | (631,382) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | - | 4,357,189 | 4,357,189 | 4,357,189 |
| NET CHANGE IN FUND BALANCE..... | (16,827,358) | (9,966,241) | (26,793,599) | (26,793,599) |
| BUDGETARY FUND BALANCE, Beginning of year..... | - | 39,798,890 | 39,798,890 | 39,798,890 |
| BUDGETARY FUND BALANCE, End of year..... | \$ (16,827,358) | \$ 29,832,649 | \$ 13,005,291 | \$ 13,005,291 |

See notes to basic financial statements.

| Actual Budgetary Amounts | Amounts Carried Forward To Next Year | Variance to Final Budget |
|--------------------------------|--|-----------------------------|
| \$ 118,440,482 | \$ - | \$ 1,314,922 |
| 5,314,315 | - | (138,185) |
| 681,126 | - | 31,126 |
| 3,968,774 | - | 10,406 |
| 380,044 | - | 180,544 |
| 1,009,139 | - | 159,139 |
| 3,819,874 | - | 1,184,002 |
| 4,028,995 | - | (294,205) |
| 16,621,348 | - | 702,662 |
| 388,493 | - | 193,934 |
| <u>1,236,663</u> | <u>-</u> | <u>525,438</u> |
| <u>155,889,253</u> | <u>-</u> | <u>3,869,783</u> |
| 8,411,801 | 1,112,919 | 171,241 |
| 33,376,167 | 5,680,548 | 378,059 |
| 54,829,788 | 15,198 | 1,427,209 |
| 16,671,971 | 10,847,151 | 110,203 |
| 1,903,444 | 6,813 | 45,265 |
| 4,243,102 | 239,083 | 44,402 |
| 9,353,235 | - | 179,765 |
| 18,047,145 | 25,000 | 85,809 |
| 5,352,984 | - | (90,307) |
| 6,494,703 | - | - |
| <u>3,874,730</u> | <u>-</u> | <u>332,830</u> |
| <u>162,559,070</u> | <u>17,926,712</u> | <u>2,684,476</u> |
| <u>(6,669,817)</u> | <u>(17,926,712)</u> | <u>6,554,259</u> |
| 44,633 | - | 44,633 |
| 4,988,571 | - | - |
| <u>(631,382)</u> | <u>-</u> | <u>-</u> |
| <u>4,401,822</u> | <u>-</u> | <u>44,633</u> |
| (2,267,995) | (17,926,712) | 6,598,892 |
| <u>39,798,890</u> | <u>-</u> | <u>-</u> |
| \$ <u>37,530,895</u> | \$ <u>(17,926,712)</u> | \$ <u>6,598,892</u> |

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYA. 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 original fiscal year 2005 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$183,120,000 in appropriations and other amounts to be raised. During fiscal year 2005, Town Meeting also approved supplemental appropriations totaling \$50,000.

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, 2005, is presented below:

| | |
|--|------------------------------|
| Excess of revenues and other financing sources (uses) over expenditures - budgetary basis..... | \$ (2,267,995) |
| <u>Basis of accounting differences:</u> | |
| Recognition of expenditures on modified accrual basis..... | (38,155) |
| Tax refunds payable..... | <u>140,000</u> |
| Excess of revenues and other financing sources (uses) over expenditures - GAAP basis..... | \$ <u><u>(2,166,150)</u></u> |

C. Appropriation Deficits

During fiscal year 2005, expenditures exceeded budgeted appropriations for state and county charges. This deficit will be funded through tax levy and available funds in fiscal year 2006.

TOWN OF BROOKLINE, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2005

TOWN OF BROOKLINE, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
FISCAL YEAR ENDED JUNE 30, 2005

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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 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, 2005, (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2004), which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 30, 2005. 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 September 30, 2005.

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.

September 30, 2005



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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, 2005. 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, 2005.

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 "Bowers + Sullivan".

September 30, 2005



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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 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, 2005, (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2004), and have issued our report thereon dated September 30, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. 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.

September 30, 2005

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| <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 | \$ 73,999 |
| School Lunch Program | 10.553 | 268,502 |
| School Breakfast Program | 10.555 | 57,045 |
| TOTAL AGRICULTURE | | <u>399,546</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 | 3,398,665 |
| Home Investment Partnership Act | 14.239 | 58,711 |
| TOTAL HOUSING AND URBAN DEVELOPMENT | | <u>3,457,376</u> |
| U.S. DEPARTMENT OF THE INTERIOR | | |
| <u>Passed through State Department-Mass Historical Commission</u> | | |
| FY01 Survey & Planning Grant | 15.904 | 12,439 |
| U.S. DEPARTMENT OF JUSTICE: | | |
| <u>Passed through State Department of Justice:</u> | | |
| Joint Drug Enforcement Grant | 16.579 | 19,506 |
| Pine Manor Partnership | 16.588 | 17,503 |
| Violence Against Women | 16.590 | 7,607 |
| Local Law Enforcement Block Grant | 16.592 | 5,937 |
| Cops School Based Partnership | 16.710 | 766 |
| Promoting Cooperative Strategies to Reduce Racial Profiling | 16.UNK | 33,591 |
| TOTAL JUSTICE | | <u>84,910</u> |
| U.S. DEPARTMENT OF EDUCATION: | | |
| <u>Passed through State Department of Education:</u> | | |
| Title I Distribution | 84.010 | 626,009 |
| SPED 94-142 Allocation | 84.027 | 1,479,818 |
| Occupational Education | 84.048 | 30,676 |
| Preschool Incentive Distribution | 84.173 | 35,134 |
| Homeless Children Education | 84.173 | 10,367 |
| Drug Free Schools | 84.186 | 27,116 |
| Fund for the Improvement of Education-Teaching American History | 84.215 | 289,616 |
| 21st Century Community Learning | 84.287 | 64,862 |
| Innovative Education Grant/Title V | 84.298 | 16,054 |
| Enhancing Education Through Technology | 84.318 | 24,854 |
| GEAR UP | 84.344 | 185,632 |
| English Language Acquisition | 84.365 | 80,078 |
| Teacher & Principal Training/Recruiting | 84.367 | 180,427 |
| TOTAL EDUCATION | | <u>3,050,643</u> |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---------------------|
| U.S. DEPARTMENT OF ELECTIONS ASSISTANCE COMMISSION | | |
| <u>Passed through Massachusetts Secretary of Commonwealth</u> | | |
| <u>Election Division:</u> | | |
| Help America Vote | 90.400 | <u>92,800</u> |
| | | |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | |
| <u>Passed through Massachusetts Department</u> | | |
| <u>of Public Health:</u> | | |
| Emergency Preparedness | 93.003 | 17,319 |
| Medical Reserve Corps | 93.008 | 30,402 |
| Drug Free Communities | 93.276 | <u>101,765</u> |
| TOTAL HEALTH AND HUMAN SERVICES | | <u>149,486</u> |
| | | |
| FEDERAL EMERGENCY MANAGEMENT AGENCY | | |
| <u>Passed through Massachusetts Emergency Management Agency:</u> | | |
| Homeland Security Grant | 97.004 | 183,631 |
| December 6-7, 2003 Snowstorm Removal | 97.036 | 224,984 |
| Assistance to Firefighters | 97.044 | 64,800 |
| Community Emergency Response Teams | 97.054 | <u>586</u> |
| TOTAL EMERGENCY MANAGEMENT | | <u>474,001</u> |
| TOTAL | | <u>\$ 7,721,201</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> |
|----------------------|--------------------|
| Title I Distribution | 84.010 |
| SPED 94-142 | 84.027 |

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, 2005

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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 basic financial statements of the Town of Brookline, Massachusetts for the fiscal year ended June 30, 2005, we considered the Town's internal accounting structure for the purpose of rendering an opinion on the Town's basic 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 September 30, 2005, on such basic 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.

September 30, 2005

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TOWN OF BROOKLINE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2005

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COMMENTS

SCHOOL LUNCH FUND

Comment

At the end of fiscal year 2005 the school lunch fund has a deficit balance of approximately \$433,000 which did not change in FY2005. The School had indicated in the FY2004 management letter response that the deficit is expected to be reduced by restructuring the program and increasing revenues.

This deficit has existed for several years and does not appear as if a permanent solution to fund this deficit has been implemented. This represents a situation in which the Town's free cash is adversely affected by the amount of the deficit along with understating the special revenue fund balances and overstating the general fund's fund balance for financial statement reporting purposes.

Recommendation

We recommend that management fund this permanent deficit. School management must develop a business plan where each fiscal year's expenditures are funded by current revenues and if at the close of each fiscal year a deficit exists then the general fund school appropriation subsidize the deficit on an ongoing basis.

Management Response

The current deficit balance in the School Lunch Fund represents a reduction of \$197,521 between FY01 and FY04 from a deficit of \$630K to a deficit of \$433K. The school department had developed a business plan for FY05 which included the implementation of a "Healthy Initiatives" program to serve healthy meals and to recover the added expenses through higher participation. The school department did not meet the goals in the plan for higher participation in FY05, as a result no funds were generated by the program to pay down any of the prior year deficit.

The School department remains committed to eliminating this deficit as demonstrated through our actions of FY02-FY04. This will be a part of our business plan for FY06 and FY07 and beyond.

CIRCUIT BREAKER PROGRAM

Comment

Chapter 71B §5A of Massachusetts General Laws has established a program to reimburse schools for certain costs related to special education students. This program has referred to as the "Circuit Breaker".

Under this program the school will be reimbursed up to 75% of those costs associated with special education students based on a prescribed formula. The underlying nature of this program is to supplement the schools funding of special education costs, however preparation of the school committee's budget recommendations shall exclude any costs expected to be reimbursed. The Department of Revenue issued a bulletin in March 2004 that provided guidance on how to account for this grant. Based on strict interpretation of the MGL and the Department of Revenue directive, this program is designed for communities to pay for current special education costs not create a special revenue fund surplus.

Each community must establish a Circuit Breaker Special Revenue Fund to account for the grant reimbursements and allowable expenditures that match the payments received. Payments are made on a quarterly basis based on the prior years per pupil costs as outlined in subsection (c) of MGL Chapter 71B §5A. As the reimbursements are received costs earmarked as qualifying for reimbursement are to be transferred to the Special Revenue Fund in an amount equal to the reimbursement received thus offsetting the monies received and bringing the fund to a zero balance. As of June 30 any remaining reimbursable expenses are to be transferred to the fund, not to exceed the State reimbursement.

The Town and School did not follow this directive during the year which resulted in a \$1,350,000 surplus remaining in the Circuit Breaker Fund at year end. Although we believe the legislation and DOR Bulletin are clear, there has been confusion within the accounting and school departments for many communities on how to account for this grant. We proposed an entry to properly record the activity of the Circuit Breaker Grant which the Town agreed to post for financial reporting purposes.

The actual costs eligible for reimbursement submitted to the Department of Education by the School for FY2005 amounted to \$1,923,000. Excluding the \$74,000 received in FY06 for FY05, the Circuit Breaker Fund had available funds to offset current expenses of \$2,031,000. However during FY2005 only \$648,000 of expenses were transferred to the Circuit Breaker Fund and therefore the General Fund incorrectly reported over \$1,350,000 of expenses.

The effect of not transferring the expenses to the special revenue fund overstates the ending special revenue fund balance and understates the general fund's fund balance.

If that entry was made during the fiscal year the school would have had a significant appropriation surplus that could have been used to fund the School Lunch deficit identified above.

The State has appropriated funds for FY06 and Brookline will receive \$1,859,000 in four equal payments. These funds, along with the \$74,000 of residual state payments in August 2005 to close out their FY05 appropriation, are available for transfer of expenditures from the General Fund. The Town can legally transfer \$483,000 each quarter to match the revenue in the Circuit Breaker Fund.

Recommendation

We recommend that School and Town finance officials work closely together to develop procedures to comply with MGL Chapter 71B §5A in FY06. The appropriating body of the Town needs to authorize the use of the \$1,350,000 surplus remaining from June 30, 2005.

Management Response

The Public Schools of Brookline have been managing Circuit Breaker Revenue of FY04 and FY05 in a revolving fund, consistent with the direction and reporting requirements of the Massachusetts Department of Education. This audit finding, while consistent with the regulations issued by the Massachusetts Department of Revenue, is inconsistent with the direction given to School Business Officials and school systems by DOE. It is our understanding that the DOE and DOR are clarifying their differences of interpretation on this matter, and that further direction will be forthcoming in this matter, which will allow this finding to become moot.

CHAPTER 90 HIGHWAY FUND

Comment

Each fiscal year the Town transfers the approved allotment of Chapter 90 funds to the General Fund from the Chapter 90 Special Revenue Fund. This transfer creates a reserved surplus in the General Fund and a deficit in the Chapter 90 Fund. The expenditures are recorded in the General Fund and the restricted fund balance is reduced. When the reimbursement revenues are received they are recorded in the Chapter 90 Fund which reduces the deficit. Under this method of accounting the fund balance in the Chapter 90 fund should be zero or be equal to the outstanding allotment receivable.

The Chapter 90 Fund is reporting a cash deficit of approximately \$928,000 that should equal the remaining allotment receivable. However the allotment receivable in the Chapter 90 fund and the remaining allotment payable to the Town as reported by the state do not agree. Therefore the fund has not been fully reconciled at year end.

Based on the accounting methodology used by the Town this would indicate an error in posting revenue, transfers, expenses or the allotment receivable has occurred.

These unreconciled balances could cause a situation in where both the General Fund and Chapter 90 fund are reporting inaccurate fund balances.

Recommendation

We recommend that the Comptroller's Office and the Engineer's Office reconcile the Chapter 90 Funds records to the state report and continue the process on at least a quarterly basis.

Management Response

Staff members from the Comptroller's Office and the Engineer's Office will be meeting quarterly to reconcile the Chapter 90 funds. In addition, beginning with 2007, funds will be budgeted only to the Special Revenue Fund, not to the General Fund.

LIBRARY FUNDS

Comment

For financial statements purposes accounts maintained by the Library Trustees are presented within the Town's financial statements. This requires an analysis of the fiscal years activity to record the proper journal entry. This information was not readily available for all months of the fiscal year for purposes of our audit. Once the information was received we noted that some of the schedules prepared using either spreadsheet or word processing software did not add up, although immaterial in amount, this would be less likely to occur if the Library Treasurer was utilizing an accounting software package.

Recommendation

We recommend that the Library maintain a timely accounting of all library funds received and disbursed.

We also recommend that the Library Treasurer implement the use of an accounting software package, this will not only help efficiencies it will allow the preparation of financial statements at any given time throughout the fiscal year.

Management Response

In May of 2005, the Trustees' long time Treasurer stepped down and there was a period of transition. During the period of April - June the checking account was not reconciled. When the auditor was unable to get the information he was seeking from the Treasurer he called the Town Librarian, who provided the needed information within 24 hours. The account will be reconciled at least quarterly, using a spreadsheet or accounting software package.

At this time, the use of accounting software is contraindicated for two reasons. The first is licensing. As the Board prefers to have a Trustee manage the books for these funds, and as most Trustees prefer to do such work at home, we would be in the position of having on a yearly basis to transfer licenses and perhaps repurchase software when a new Treasurer elects to use a different hardware/software configuration than the previous incumbent. Also, placing Town-owned software on the private machines of Trustees would place a burden on the Town's IT Department (or the Library's) which would be responsible for updates and other maintenance, and for troubleshooting and help desk support. The second, related reason, is that our Trustees would be very part-time users of such software, and are not in all cases either technologically or financially astute. Each new elected Treasurer would have to be trained in the use of such a program, with installation and file transfer being a potential problem that some Trustees might not be able to handle on their own. Furthermore, the functionality of such a program is so much more sophisticated than what we need that there are many significant possibilities for error.

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.

Management Response

GASB 45 requires communities to identify the unfunded liability for post employment benefits, through an independent actuary study, and to post that liability as a footnote on the year end financial statements. There is at present, no requirement to fund the future cost of benefits.

GASB 45 will be required to be implemented by the Town of Brookline by the end of FY2008. The Town has taken a proactive approach to this issue. In 1998, The Town established a Retiree Health Fund and began to fund this trust fund. As of June 30, 2005, the Town has accumulated through appropriation, transfer and investment return, nearly \$3.9 million.

In 1998 the Town had an actuary study that identified the unfunded liability for post employment health benefits. The liability at that time was identified as \$94 million. In 2001, the Town updated this actuary study and found that the liability had grown to approximately \$120 million. Further, it was projected to increase to approximately \$180 million by FY2010.

The Town is planning to again update the actuary study in early 2006. This analysis will identify not only the most current unfunded liability, but also the annual current and future cost that would bring the Town to full funding within forty years. In addition, the Town will take steps to comply with GASB 43, which requires an independent Board, separate from the Town, to take charge of the fund.