

***TOWN OF BROOKLINE, MASSACHUSETTS***

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

***FISCAL YEAR ENDED JUNE 30, 2011***

TOWN OF BROOKLINE, MASSACHUSETTS

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# TOWN of BROOKLINE

## *Massachusetts*

### BOARD OF SELECTMEN

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NANCY A. DALY  
JESSE MERMELL  
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### *Letter of Transmittal*

September 30, 2011

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 Generally Accepted Accounting Principles (GAAP) of the United States of America 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, 2011 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. As 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 assurance in accordance with best practices 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 LLC, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Town of Brookline for the fiscal year ended June 30, 2011, 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 principles 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, 2011 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 particular 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 requires 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 complement 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 2010 federal census, has a population of 58,732 persons.

## **Municipal Services**

The Town provides general governmental services within its boundaries including:

- public education in grades pre-kindergarten through 12 to more than 6,000 students
- police and fire protection, including building inspection and animal control services
- highway and roadway maintenance, including snow and ice control and traffic control
- street and sidewalk maintenance
- water and sewer services
- refuse collection and recycling services
- parks and recreational services, including a golf course and a swimming pool
- library services
- senior citizen services and programs, including a senior center facility
- public health services, including food outlet inspections, immunizations, and mental health
- veterans services and youth and human services

## **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 248 members and implemented by a five-member Board of Selectmen. A Town Moderator is elected every three years to preside over the proceedings of Town Meeting. 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 departments except for the School Department, Library, and Town Clerk's Office. The Superintendent of Schools is the chief operating officer for the Brookline Public Schools and is responsible for the supervision and administration of all School operations.

A nine person elected school committee is responsible for policy for 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. A five member Retirement Board services employees and retirees in all departments, except professional employees of the School Department who are covered by the Massachusetts Teachers Retirement System, for retirement matters, and consists of an ex-officio member, two members elected by active and retired members of the Retirement System, one member appointed by the Selectmen and a fifth member chosen by the other four Board members. A seven member Retiree Health Committee is responsible for the investment of Other Postemployment Benefits (OPEB's) assets. The Committee is made up of the Retirement Board plus two additional members appointed by the Board of Selectmen.

## **Audit Committee**

The Audit Committee consists of six members with appointment not restricted to the ranks of appointing bodies. The Board of Selectmen, the Advisory Committee and the School Committee each appoint one member and the Town Moderator appoints three members. Current voting members include Nancy Daly (selectmen appointee and chair), Lee Selwyn (Advisory Committee), Alan Morse (School Committee), James Littleton, Gregory Grobstein and Christopher Cox (Moderator's Appointees). In addition to the six voting members, the Director of Finance

(Stephen Cirillo), the Comptroller (Judith Haupin), the Superintendent of Schools or his/her designee (Peter Rowe), and the Town Administrator or his/her designee (Sean Cronin) serve as nonvoting members of the Committee. The Audit Committee serves as advisor to the Board of Selectmen with respect to the Town's financial condition, financial management systems, and controls and annual audit. In addition, the Committee shall report to Town Meeting as the Committee sees fit on matters within the scope of Town Meeting's concerns. Specific duties shall include, but are not limited to the following:

“make recommendations to the Board of Selectmen on the selection of and scope of services for an independent auditor; review the annual financial statements and reports prepared by the independent auditor and make recommendations with respect thereto; make recommendations for areas of operations where expanded scope audits or reviews of the internal controls may be appropriate; review and make recommendations with respect to the Town's financial management practices and controls; report to the annual Town Meeting on the recommendations the Committee has made during the preceding twelve months”.

### **Financial and Management Systems**

The Town annually prepares and updates a five-year Financial Forecast, a six-year Capital Improvement Program (CIP), and an annual Operating Budget. These documents are presented in the Annual Financial Plan, which is produced by the Town Administrator's Office in conjunction with the Finance Department, and reviewed by the Board of Selectmen and Advisory (Finance) Committee. Both the first year of the CIP and the Operating Budget are submitted to Town Meeting for adoption. The Board of Selectmen have formally adopted financial policies that guide the preparation of the Annual Financial Plan.

The five-year Forecast, submitted in December 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. The forecast presents surplus/deficit projections based on various scenarios of key revenue sources (e.g., State Aid) and expenditure categories (e.g., health insurance, collective bargaining). These scenarios guide both the Board of Selectmen and Town Administrator in the preparation of the ensuing fiscal year's budget.

The six-year CIP, preliminarily submitted in November/December of each year, comprehensively identifies municipal infrastructure and improvement needs by detailing each project, including cost, potential source(s) of funding, priority need, impact on the operating budget, and ongoing capital maintenance costs. Guided by the Town's formal policy of dedicating 6% of the prior year's net revenue, plus free cash to the extent possible to reach a level of 7.5%, to the CIP, the annual update allows decision makers and voters the opportunity to regularly analyze and decide upon priority project funding. After inclusion in the Town Administrator's financial plan, the proposed CIP is reviewed by both the Planning Board and the Advisory Committee. Then, as part of the budget article at the Annual Town Meeting, projects contained in the first year of the CIP are recommended for funding.

The annual Operating Budget, submitted in February of each year as part of the Annual Financial Plan, 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 financial plan has again been recognized by the GFOA for excellence in budget presentation. The budget maintains consistency with the Selectmen's financial management standards and policies. The budget funding sources include the General Fund, comprised of revenues including property tax, auto, meals, and hotel taxes, user fee receipts, State Aid, investment income and miscellaneous program income; 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	Melvin A. Kleckner	Appointed - 3 years	2013
Superintendent of Schools	William Lupini	Appointed - 3 years	2012
Deputy Town Administrator	Sean Cronin	Appointed - 1 year	2012
Assistant Town Administrator	Melissa Goff	Appointed - 1 year	2012
Finance Director and Treasurer	Stephen Cirillo	Appointed - 1 year	2012
Town Comptroller	Judith Haupin	Appointed - 1 year	2012
Town Clerk	Patrick J. Ward	Elected - 3 years	2012
Town Counsel	Jennifer Dopazo	Appointed - 3 years	2014

## 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. Approximately 78% of general fund revenues are financed by the annual tax on property. The remaining revenues come from locally derived receipts (approximately 10%), State Aid (approximately 6%), transfers from other non-general funds (approximately 3%) and Free Cash (approximately 3%).

Residential properties comprise 90.8% of the full and fair value of the property in Brookline and they are responsible for 84% 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	\$ 11.30 per thousand
Commercial	\$ 18.30 per thousand

A combination of significant new development and a healthy real estate market has contributed to a steadily growing tax base. The tax base (current market valuation of \$14.9 billion) has increased more than 89% over the past decade, reflecting strong development and real estate appreciation. The Town's tax base is now the fifth largest in Massachusetts. Building permit activity continues at a strong pace, having averaged more than \$2.5 million annually over the last five years. Per capita housing market value of approximately \$250,000 is also among the highest in the state, as is the per capita personal income level, which is \$44,327 according to the 2010 census.

## The Annual Financial Plan

A number of cost centers have placed significant pressures on the operating budget, including health insurance, pensions, utilities, special education, and school enrollment. These cost pressures have made maintaining the level and quality of services the Town delivers difficult. Double-digit growth in health insurance premiums were the norm for much of the period from 2004 - 2010, consuming approximately one-third of all new property tax revenue during that time. This line item increased from \$12 million in FY 2003 to \$24 million in FY 2010. Over the past few years, the Town has taken steps to help blunt growth in this cost center. In FY2008, plan design changes were implemented that resulted in an annualized decrease of more than \$1 million in the health insurance budget. Effective July 1, 2010 (FY2011), the Town and its unions agreed to enter into the Group Insurance Commission (GIC), the state agency that provides life, health, disability and dental and vision services to more than 300,000 state employees, retirees and their dependents. This action enabled the Town to reduce its group health budget from what was expected to be \$25.8 million to \$20.2 million, a savings of \$5.6 million. It also reduced premium withholdings for employees.

Healthcare insurance is provided during the working life of employees, and in their retirement. The annual cost of group healthcare insurance referred to in the preceding paragraph represents the premiums paid for a particular year for both working and retired employees and eligible dependents. The accompanying basic financial statements, prepared in accordance with GAAP, reflect additions, costs, liabilities and disclosures related to the healthcare obligation the Town has to its working and retired employees and their dependents, and will have to its working employees in their retirement years. Financial accounting and disclosure for healthcare provided to employees in retirement is established by GAAP for Other Post-Employment Benefits, and is referred to herein by terms including OPEB, post-employment, and post-retirement. The Town has developed an OPEB funding plan that results in the Town reaching its Annual Required Contribution (ARC) in approximately five years and being fully funded in approximately twenty-two years.

Increases in the Town's contribution to the Retirement System have averaged approximately \$840,000 over the past five years, including the large increases in FY2008 (\$1.1 million) and FY2010 (\$1.6 million). As a result of the world-wide economic down-turn, government retirement systems experienced significant investment losses in calendar year 2008. Knowing that these losses would require the Town to dramatically increase the FY2012 appropriation, the Town took steps to offset the anticipated budget impact by ramping up to the higher appropriation over a three-year period, beginning in FY 2010. In both FY2010 and FY2011, the Town earmarked new revenue from local option taxes, which were made possible by an act of the State Legislature, for the pension system. The impact of this was to increase the FY2010 appropriation by just under \$1 million and the FY2011 appropriation by \$1.2 million, leaving an increase of FY2012 of approximately \$650,000. If this approach was not taken, the increase from FY2011 to FY2012 would have been \$1.8 million. The success of this strategy was illustrated in the approved calendar year 2010 Actuary funding schedule, which included a FY2012 appropriation with an average increase from the prior fiscal year, a reduction in the estimated rate of return from 8.25% to 8.15%, and a full funding date of 2028, well ahead of the 2040 maximum full funding date mandated by state law.

Utility expenses have skyrocketed since FY2003: the price of electricity has increased 106%; natural gas has increased by 143%; the price of heating oil is 317% higher; and the price of vehicle fuel is 201% higher. As a result, the Town's total utility budget has doubled since FY2003 to \$5.5 million. As part of an effort to reduce the consumption of energy, the Town, through its CIP, funding from the American Recovery and Reinvestment Act (ARRA), and programs with local utilities, has invested in energy efficiency programs and technologies. Savings from these investments have begun to be realized, most notably in Town Hall, where consumption has been cut in half. The Town has also taken advantage of recent drops in the electricity and natural gas markets by locking in at reduced rates for the next few fiscal years.

Special education (SPED) and enrollment growth continue to place stress on the School budget. SPED has been growing by approximately \$700,000 per year and now consumes approximately 25% of the School budget. Enrollment in the elementary schools has resulted in cost pressures not only in the School's operating budget, but also on the CIP, as numerous school facility projects are being planned for (see the CIP section under "Long-term Financial Planning" below). Over the past seven years, total K-8 enrollment has grown 925 (24%) and, based upon available birth data and other demographic trends, this growth pattern is expected to continue for at least

the next five years. This will result in total enrollment growth of approximately 1,200 students (31%) during the nine year (FY05-FY14) period. In 2005, the K-8 elementary schools operated with 3,888 students in 196 homerooms. In FY2012, they will operate with 4,813 students in 230 homerooms. In FY2014, the schools estimate a need for 241 homerooms for the projected enrollment of 5,100 students. This is an increase of 45 homerooms between 2005 and 2014. In order to create the classroom space necessary to accommodate this enrollment level, the Schools have had to convert spaces intended for other purposes into regular classrooms. On the operating budget side, with new classrooms comes the need for new teachers. Obviously, this has put pressure on the School budget.

On the revenue side, while property taxes comprise approximately three-quarters of the Town's General Fund revenue, there are two other revenue streams that impact the budget significantly: State Aid and Local Receipts. In FY2003 and FY2004, local aid was cut by close to \$3 million. In FY10, it was cut \$3.1 million and then by another \$700,000 in FY2011 and \$413,000 in FY12. Since FY03, state aid has realized a cut of 29%, even before accounting for inflation. The current fiscal climate at the State and Federal levels points to a potential decrease in state aid in FY2013, so there is likely to be a significant negative impact on the Town's ability to provide services.

Local Receipts, which consist of sources such as motor vehicle excise, refuse fees, building permits, interest income, parking tickets and meals and hotel/motel excise taxes, make up approximately 10% of the Town's annual revenue. Over the past half decade, the Town has increased certain local receipts in order to replace revenue lost from State Aid cuts, thereby increasing reliance on local revenues to cover the increasing cost of providing services. Examples include increases in the refuse fee, fines for parking violations, and parking meter fees. The Town continues to review all current and potential sources of revenue. Along with many other communities in Massachusetts, Brookline adopted two local options designed to raise local revenues. The first was the adoption of a 0.75% meals excise tax. The second was an amendment to the Local Room Occupancy tax, increasing the local option excise tax from 4% to 6%. Both these local options became effective on October 1, 2009, and the Town began receiving distributions from the Commonwealth in December, 2009.

### **Long-term Financial Planning**

The Town continues to manage its financial affairs in a prudent manner. Throughout all of the changes in the economy, increases in expenses and decreased State Aid, the Town has maintained its Aaa bond rating. It has done so by incorporating long-range planning tools such as the five-year Forecast and the six-year CIP; establishing rainy day accounts and budgeting stabilization reserves; prioritizing spending plans and identifying discretionary spending; developing long-term planning for all liabilities including pension and other post-retirement benefits (OPEBs); investing in technology to make operations more efficient; and growing the tax base in a manner that balances neighborhood concerns with the need for additional revenues.

Brookline has also enhanced its revenue flexibility by utilizing enterprise funds for certain operations. This allows the Town to charge 100% percent of the operating cost and capital improvements to the users of certain services so that no tax support goes toward 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.

Through the CIP process, the Town of Brookline has identified approximately \$158.7 million in capital improvements needed over the next six years. Large components of this total include the following:

- ✚ Anticipated school projects (\$100.8 million). It is important to note that the two renovation/addition projects planned for (Heath School and Devotion School) assume the Massachusetts School Building Authority (MSBA) covers between 35% and 40% of the costs. In March, 2011, the Town was notified that the MSBA approved funding equivalent to 40% of eligible expenses for the Heath School, meaning \$3.3 million of the \$8.5 million project will be paid for by the State. Funding was approved at the May, 2011 Annual Town Meeting for the Town's share of the project. The Town should be cautioned, however, that with the combination of a slowdown in the economy (which will reduce MSBA revenue) and a need for school construction in economically challenged communities, it is not certain that the Town will be as

fortunate with the Devotion School. If that were to occur, then either the project needs to be reduced or a debt exclusion override will be required.

- ✚ Upgrade and maintenance of our waste water system (\$5.0 million), which will be borne by the water and sewer rates rather than the tax levy.
- ✚ Rehabilitation of the Town's streets and sidewalks (\$17.1 million). The 2008 Override included additional funding for streets and sidewalks, proof of the Town's and taxpayers' commitment to maintaining its infrastructure. State funding via the Chapter 90 program is expected to fund \$5.7 million of this work.
- ✚ 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 supported by the tax base).
- ✚ The Village Square project in the Brookline Village / Route 9 area (\$4.5 million). The Town plans on utilizing the Section 108 Loan Program afforded by the Federal government under the CDBG program to finance \$2.25 million. The remaining amount is to be funded by a grant through the State Transportation Improvement Program (STIP) and outside sources related to the 2 Brookline Place redevelopment.
- ✚ The closure of the rear landfill (\$4.6 million).
- ✚ Upgrades and rehabilitation of various parks/playgrounds/open spaces (\$11.7 million).
- ✚ Fire station renovations and fire apparatus (\$4.8 million).

The Town is proud to have accomplished the successful closing and capping of the Town's landfills. This multiyear project presented significant challenges, which when accomplished have provided valuable benefits to the Town's residents, including the development of a new recreational field. In FY04, Town Meeting approved \$7.89 million for capping the front landfill and transforming it into a full-sized recreational field and playground. Unfortunately, part of the project including implementing state-mandated assessment and corrective actions related to the removal of historically deposited ash-laden soils that were required on properties surrounding the landfill. In FY04 and FY05, a total of \$3 million was approved to undertake all actions required on certain properties along Newton St., Nelson Drive, and Hammond Pond Parkway. Between FY07 and FY10, a total of \$9.25 million was approved for similar actions on properties along the other side of the landfill (Martha's Lane, Kensington Circle, and Arlington Road). Of this amount, \$1 million was funded via a grant from the State's Environmental Bond Bill. All of these actions ensured on-going compliance with Department of Environmental Protection's (DEP) Solid Waste Management regulations, 310 CMR 19.000, and Massachusetts Contingency Plan, 310 CMR 40.000, for properties along Martha's Lane, Kensington Circle, and Arlington Road. In addition, the Town and the effected residents agreed on a settlement that totaled \$5 million. We are also pleased to report that all of the \$3.275 million bond authorization related to the landfill project was rescinded at the 2011 Annual Town Meeting since the remediation projects along Martha's Lane, Kensington Circle, and Arlington Road came in well under-budget.

As detailed above, enrollment in the pre-K to eighth grade elementary schools has increased significantly, placing pressure on both operating and capital budgets. There will be 45 more homerooms and 1,200 more students in 2014 than in 2005. In order to create additional classroom space, the Town, through its CIP, has appropriated funds for the following projects, all of which increase the number of classrooms in the elementary schools:

- Runkle School Renovation / Addition (\$29.1 million, of which approximately 40% will be paid for by the State)
- Heath School Addition (\$8.5 million, of which approximately 40% will be paid for by the State)
- Classroom Capacity (\$1.3 million)

Even with this significant investment, census data shows that there is no abatement in the large enrollment levels. Exacerbating the issue is the fact that these larger grades will soon be making their way into the High School, which does not currently have the space to house what could be 2,400 students. Therefore, long-range planning must continue and the CIP may very well have to be adjusted in order to accommodate the financial outlay required to deal with this most pressing issue.

## **Other Post-Employment Benefits**

The Town of Brookline is legally and contractually obligated to pay for the retiree health cost of past, present and future Town / School retirees who have worked a minimum of 10 years for the Town. There is no requirement that the employee has to be working for the Town at the time of retirement in order to receive this benefit. The calendar year 2010 Biennial Actuary Analysis estimated the present value of this obligation to be \$323 million (at a discount rate of 5.5%). At June 30, 2011, the Town has a balance of \$10.8 million of assets in a fiduciary-managed trust fund that is designed to be the source of funding to satisfy the obligation. GAAP requires that the unfunded liability be recognized in the basic financial statements. Beyond the trust fund, the Statement of Net Assets at June 30, 2011 includes a liability of \$34.7 million for a portion of the unfunded post-employment benefits; none of the Town's assets as of that date are dedicated to the satisfaction of that liability. The recognized amount of the liability will continue to grow, and be reduced as assets are contributed to the trust fund. Future funding of the retiree healthcare obligation represents the Town's largest financial challenge.

The Town established an Other Post-Employment Benefits (OPEB) Taskforce to address this challenge. It made several recommendations to the Board of Selectmen, which, if implemented, could reduce the OPEB liability. In addition, the Committee made several recommendations regarding the development of a long-term funding strategy over a 30 year period.

The Town has adopted some of the funding recommendations, including an annual and escalating appropriation in the Financial Plan, which would generate \$116.5 million over a thirty year period. The current strategy increases the annual funding commitment each year until, in approximately FY 2018 of the plan, the Town reaches the annual funding requirement (ARC). In the remaining years, annual contributions will exceed the ARC, so that the Town would reach full funding by approximately FY 2034.

In addition, the Town has begun allocating retiree healthcare costs to all enterprise, revolving, grant, and special funds of the Town and School Departments. It is anticipated that this policy could generate an additional \$28.95 million of funding for the OPEB liability. This plan could result in increased fees charged to the users. In the area of cost containment, the Town and Unions reached an agreement to enter the State's Government Insurance Commission (GIC) to provide medical insurance coverage for current working and retired employees and their eligible dependents.

As a result of these decisions, the unfunded OPEB liability has been reduced from \$323.2 million to \$207.9 million. As of fiscal 2011, the fiduciary-managed trust fund for retiree health care benefits is classified as a fiduciary fund, and is no longer included in the government-wide financial statements. It now appears a separate column in the fiduciary fund statements.

## **Cash management policies and practices**

The Town of Brookline issues property tax bills four times a year and derives approximately 78% 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 continuing changes in the rate of return for most traditional investment vehicles. 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 into a sweep account (repurchase agreement) with the same depository bank. Frequently, depending on the level of receipts, money is transferred into the Town account that offers the highest yield.

Finally, a significant portion of the Town's non-expendable trust funds are currently managed by professional and nationally recognized investment management firms. 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.

The cash and investment commitments at June 30, 2011 for the funds maintained by the Town's Treasurer are as follows:

General Fund - Unencumbered	\$	21,199,234
General Fund - Encumbered		968,972
Reserved for :		
Special Revenue (Grant) Funds		10,759,527
Bond Financed Capital Projects		8,907,625
Revenue Financed Capital Projects		10,012,438
Enterprise Funds		5,650,868
Trust and Agency Funds		32,839,210
	\$	<u>90,337,873</u>

Of the \$90.3 million in total cash and investments, more than \$69.1 million is committed to General Fund contracts, Bond and Revenue Funded Capital Projects, Enterprise operations, Trust and Agency Funds and Grant funded projects, leaving approximately \$21.2 million unencumbered and not reserved for within .

### **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.

Workers' 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 \$800,000. 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.

### **Initiatives**

Due to the above referenced and other cost pressures and strains on revenues, projected annual budget deficits have become the norm. In order to balance the budgets, the Town has continued to drive efficiencies and find other ways to continue to deliver a high level of service at lower costs. Over the past few budget cycles, the Town has taken steps toward reducing both immediate and long-term costs, including the following:

- 5% reduction in Town FTE's since FY06 (exclusive of school positions)
- Further utilization of contracted services
- Move to the Group Insurance Commission (GIC) (see above)
- Implementation of plan design changes in the Town's health insurance program (see above)
- Re-organization of various departments/divisions
- Civilianization of certain functions in the police and fire departments
- Further utilization of technology to drive efficiencies
- Investment in energy efficiency projects

### Update of Financial Policies

When preparing the Fiscal Year 2012 Financial Plan, the Town Administrator determined that certain budget conditions required actions that were inconsistent with the current fiscal policies of the Town. Most notably, the Town's certified Free Cash balance experienced a one-time increase as a result of the conversion from private insurance premiums to the GIC. At the same time, the Town was experiencing a gradual erosion of its year-end Unreserved Fund Balance (UFB), leading to formal concerns expressed by Moody's Investors Service, the independent rating agency that grades the Town's credit when issuing tax-free municipal bonds. The then-current policies of the Town dictated the allocation of all Free Cash balances, regardless of the impact on the Town's year-end UFB. As a result, the Town Administrator recommended that \$1.7 million of Free Cash remain unexpended in FY2012, thus ensuring that the Town's year-end UFB would remain above the 10% of General Fund revenue benchmark identified by Moody's as representative of prudent financial management.

In January, 2012, the Town Administrator recommended to the Board of Selectmen that they reconvene the Fiscal Policy Review Committee (FPRC) to review, affirm and revise as necessary the existing financial policies of the Town. The Committee was also charged with reviewing the need for a new policy regarding Unreserved Fund Balance in order to preserve the Town's Aaa Bond rating. The Committee concluded that all of the Town's fiscal policies were interrelated and that a review of one would necessitate review of all. In addition, the Committee acknowledged that some issues had changed since its last review including, but not limited to, the increasing importance of addressing unfunded liabilities such as Other Post-Employment Benefits, or OPEB's. Finally, there were other issues raised during the Advisory Committee's review of the FY2012 budget that related to the Town's fiscal policies, including the formula for allocating Free Cash to support the Affordable Housing Trust Fund.

The Committee made a number of recommendations that resulted in the Town having a formal UFB Policy -- something the Town lacked -- that does not reduce the level of commitment to the CIP or to other important reserves. This was accomplished by creating a new Free Cash Policy that better prioritizes the needs of the Town. The recommendations made by the Committee and ultimately adopted by the Board of Selectmen provide important changes to the policies to make them more responsive and relevant to changing circumstances. Most importantly, the recommendations concerning the maintenance of adequate fund balance levels are critical to provide the Town with financial flexibility and to retain the premier bond rating of Aaa.

### Water/Sewer Rate Structure

During the rate setting process for the FY2010 water/sewer rates, the Board of Selectmen directed the Department of Public Works (DPW) to examine the rate structure. As a result, the Town undertook an exhaustive review of its water/sewer rate structure with the assistance of Weston and Sampson Engineers. At the core of the analysis was the issue of revenue volatility. With the on-going reduction in water consumption, revenue deficits were generated in the enterprise fund, and those deficits must be raised in the following fiscal year's rates.

In June, 2011 the Board of Selectmen adopted a revamped rate structure that moved the Town from a flat rate structure, which had been utilized for decades, to an increasing block rate structure with a base service charge and a fire service fee for certain properties. The revamped rate structure accomplished a number of goals:

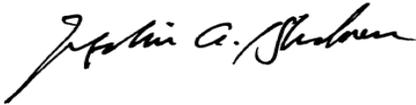
- minimize revenue volatility
- equitable cost distribution among customers
- comply with DEP and regulatory standards
- charge Town and School departments for their use

The impact this new rate structure has on various types of property and residents will be analyzed during the fiscal year. If the data shows that the new rate structure caused unforeseen financial hardships, the Selectmen could alter the rate structure for FY13.

**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's Office and the Finance Department. 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,



Melvin A. Kleckner  
Town Administrator

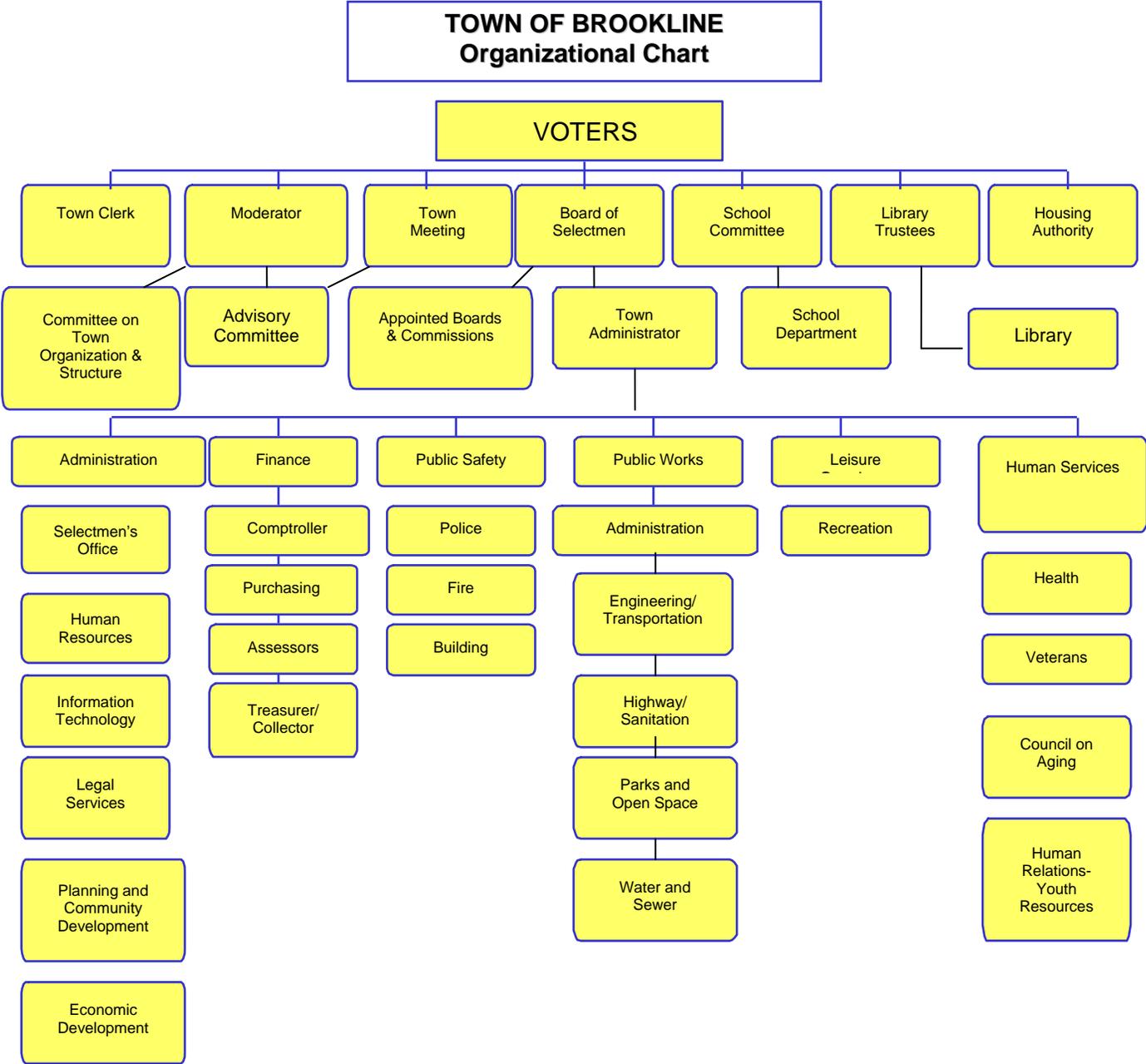


Stephen Cirillo  
Finance Director



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 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, 2011, 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof 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 December 16, 2011 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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, other postemployment benefit plan-schedule of funding progress and employer contributions, and other postemployment benefit plan-actuarial methods and assumptions 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 letter of transmittal and organizational charts have 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 black ink that reads "Powers & Sullivan LLC". The signature is written in a cursive, flowing style.

December 16, 2011

***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's financial statements this narrative overview and analysis of the financial activities of the Town of Brookline for the fiscal year ended June 30, 2011. 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 principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Governments 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. The Town of Brookline has received 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 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, and interest. 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.

Fiscal year 2011 was the Town's initial year of implementation of GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of this standard has changed the fund balance components into nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the Town's stabilization fund is reported within the general fund as unassigned.

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 schedule has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The Town maintains two types of proprietary 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 Other Post Employment Benefits (OPEBs), workers' compensation benefits, unemployment and municipal building 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 postemployment 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 \$169.5 million at the close of fiscal year 2011.

For the governmental activities, net assets of \$145.2 million 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 is 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. \$30.5 million represents resources that are subject to external restrictions on expenditures. The Town has \$27.3 million of unrestricted net assets without considering the recorded liability for a portion of the post employment healthcare obligation. That liability (\$33.4 million) is long-term in nature, and will not be funded from the \$27.3 million of unrestricted net assets at June 30, 2011 (see the discussion of Other Post Employment Benefits in the Transmittal Letter section of this report).

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 \$7.1 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.

### Governmental Activities Net Assets

At the end of the current fiscal year, the Town is able to report positive balances in two out of three categories of net assets. The Town's assets exceeded liabilities by \$169.5 million at the close of fiscal year 2011.

	FY 2011	FY 2010	FY 2009
	<u>Governmental</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
<b>Assets:</b>			
Current:			
Cash and cash equivalents.....	\$ 67,887,558	\$ 62,792,008	\$ 65,868,113
Investments.....	5,361,725	11,048,635	9,250,406
Receivables, net of allowance for uncollectibles....	16,697,618	12,588,030	14,475,980
Other current assets.....	585,500	529,691	2,816,212
Noncurrent assets (excluding capital).....	4,411,000	5,404,000	22,490,000
Capital assets.....	193,261,772	190,228,444	191,449,243
<b>Total assets.....</b>	<b>288,205,173</b>	<b>282,590,808</b>	<b>306,349,954</b>
<b>Liabilities:</b>			
Current (excluding debt):			
Warrants payable.....	3,071,158	3,262,614	2,830,241
Tax refunds payable.....	2,129,000	2,370,000	1,153,000
Compensated absences.....	5,905,415	5,736,797	5,554,883
Other current liabilities.....	4,029,748	4,192,953	5,338,050
Noncurrent (excluding debt):			
Landfill closure.....	4,505,000	5,207,000	12,030,000
Compensated absences.....	3,687,093	3,694,576	3,603,745
Postretirement benefits.....	33,427,338	36,158,149	25,306,331
Other noncurrent liabilities.....	737,250	702,000	183,000
Current debt.....	7,796,238	7,105,400	8,311,177
Noncurrent debt.....	53,399,809	51,546,047	74,307,046
<b>Total liabilities.....</b>	<b>118,688,049</b>	<b>119,975,536</b>	<b>138,617,473</b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	145,193,503	138,378,461	133,933,484
Restricted.....	30,469,132	29,607,081	33,545,176
Unrestricted.....	(6,145,511)	(5,926,270)	253,821
<b>Total net assets.....</b>	<b>\$ 169,517,124</b>	<b>\$ 162,059,272</b>	<b>\$ 167,732,481</b>

Net assets from the Town's governmental activities increased by \$14.8 million during fiscal year 2011. Key elements of the change are as follows:

	<b>FY 2011</b>	<b>FY 2010</b>	<b>FY 2009</b>
	<b>Governmental</b>	<b>Governmental</b>	<b>Governmental</b>
	<b>Activities</b>	<b>Activities</b>	<b>Activities</b>
<b>Program revenues:</b>			
Charges for services.....	\$ 24,670,955	\$ 23,499,200	\$ 23,089,294
Operating grants and contributions.....	37,593,378	35,836,959	35,714,779
Capital grants and contributions.....	1,082,836	2,981,790	-
<b>General Revenues:</b>			
Real estate and personal property taxes.....	156,404,746	151,463,056	147,735,896
Motor vehicle and other excise taxes.....	5,227,536	4,760,227	5,112,074
Nonrestricted grants and contributions.....	5,544,701	5,828,099	7,874,410
Unrestricted investment income.....	1,380,045	1,910,814	555,446
Gain/(loss) on sale of capital assets.....	1,500,417	(19,317)	(210,848)
Other revenues.....	3,808,658	3,179,778	2,719,047
<b>Total revenues.....</b>	<b>237,213,272</b>	<b>229,440,606</b>	<b>222,590,098</b>
<b>Expenses:</b>			
General Government.....	19,600,852	21,087,675	20,138,908
Public Safety.....	47,579,531	51,016,383	47,394,571
Education.....	120,484,530	123,451,076	122,207,617
Public Works.....	19,656,664	22,816,763	21,759,827
Community and Economic Development.....	1,717,158	2,056,011	1,611,922
Human Services.....	4,253,740	4,718,964	3,723,388
Leisure Services.....	8,694,233	9,227,021	8,625,277
Interest.....	2,223,231	2,715,031	4,017,530
<b>Total expenses.....</b>	<b>224,209,939</b>	<b>237,088,924</b>	<b>229,479,040</b>
<b>Transfers In(Out).....</b>	<b>1,809,342</b>	<b>1,975,109</b>	<b>1,993,691</b>
<b>Change in net assets.....</b>	<b>\$ 14,812,675</b>	<b>\$ (5,673,209)</b>	<b>\$ (4,895,251)</b>

The increase in net assets is due to several factors.

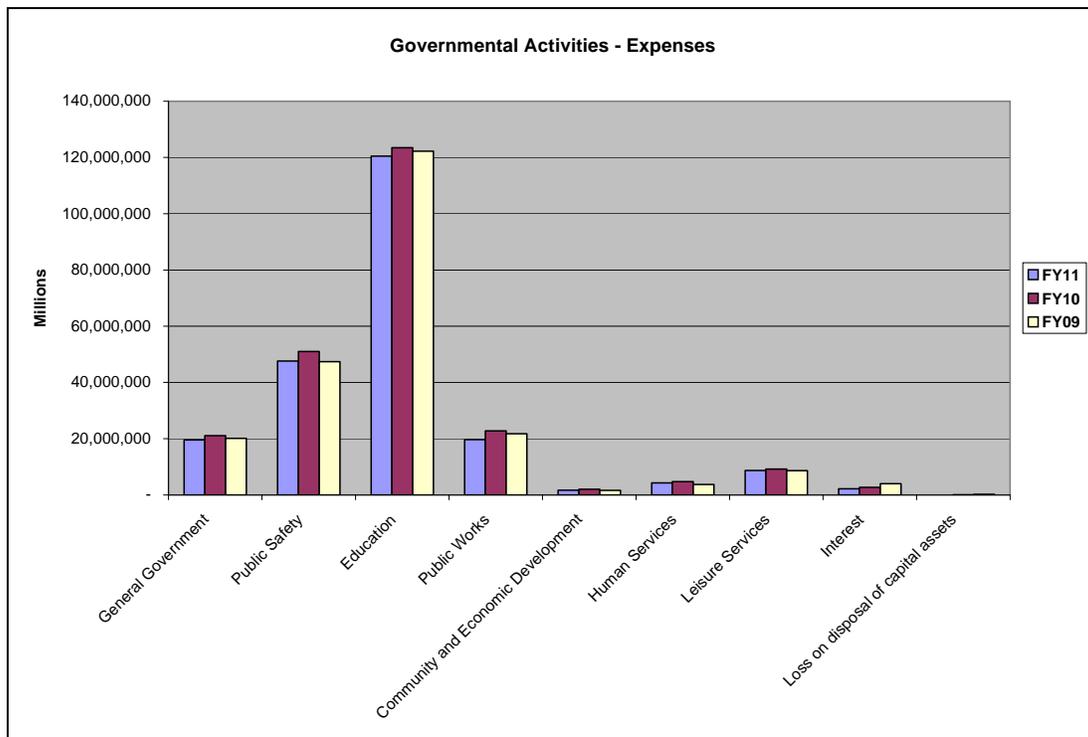
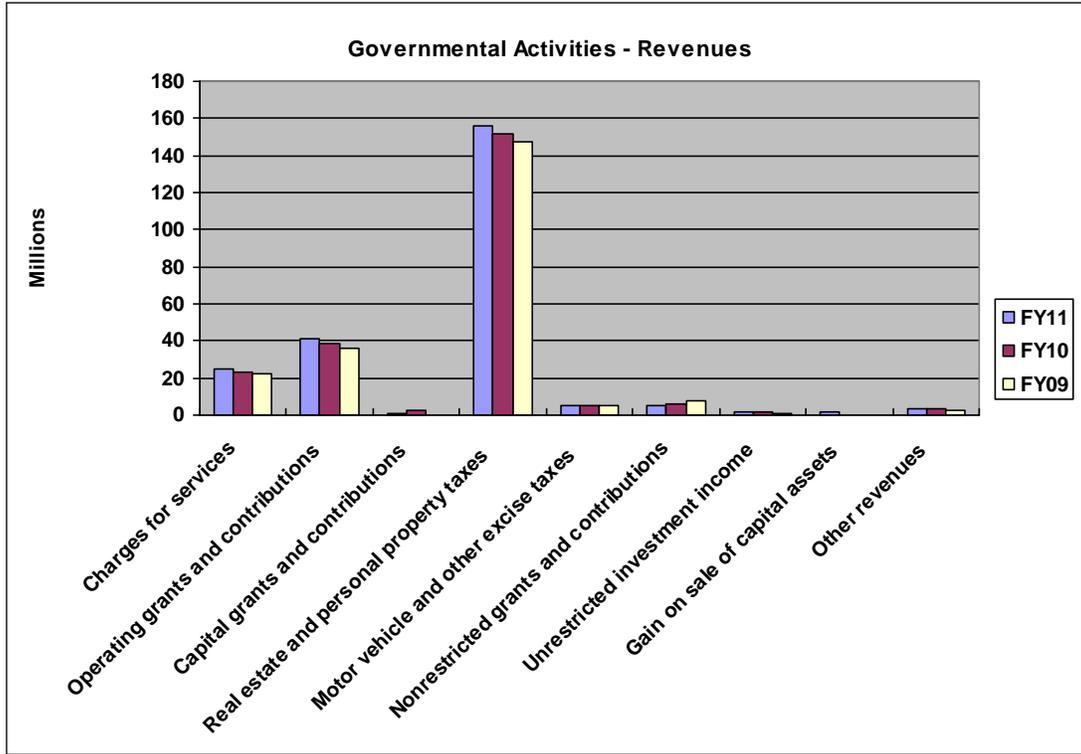
The first is the decrease in the liability relating to GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This requires the recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan. In fiscal 2011 the Town's actuarial valuation decreased by \$2.7 million. This was due to the establishment of the OPEB Trust, which allowed the actuarial valuation to use a higher rate of return, and the Town joining the GIC, which lowered the annual cost of health care. This decrease contrasts with the prior year increase in the OPEB accrual of \$10.9 million. This combined \$13.6 million change is the primary reason why total expenses decreased from FY2010 to FY2011.

Other factors impacting the \$14.8 million increase in net assets include are that the landfill closure liability decreased by \$1.1 million to a balance of \$4.6 million, the recognition of an entitlement receivable of \$2.3 million related to the CDBG Program, the net gain on disposal of capital assets of \$1.5 million, a \$1.1 million capital grant related to the MSBA Reimbursement of the Runkle and Heath School construction projects, the receipt of approximately \$1.0 million of insurance damage recovery, an increase in school federal and state grants of approximately \$560 thousand, and the Town's ability to fund approximately \$7 million of capital additions from current revenues.

These increases were offset by the fact that depreciation exceeded principal payments on long-term debt by approximately \$2.5 million.

The governmental expenses totaled \$224.2 million of which \$63.3 million (28.3%) was directly supported by program revenues consisting of charges for services, operating grants and contributions and capital grants. General revenues totaled \$173.9 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid.

The following tables show the functional sources and uses of Fiscal 2011 revenues and expenses.



## ***Financial Analysis of the Government's Funds***

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$65.9 million, of which \$23.5 million is for the general fund, \$2 thousand is for the Chapter 90 Highway major fund, \$9.8 million is for the capital articles fund, and \$32.6 million is for the nonmajor funds.

The General Fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance was \$22.6 million, while total fund balance was \$23.5 million. Reservation of fund balance for Encumbrances and Continuing Appropriations totaled \$969 thousand and there was \$5.3 million designated as amounts voted to be used in fiscal year 2012. Unassigned, undesignated fund balance represents 11% of total general fund expenditures, while total fund balance represents 11% of total general fund expenditures.

Fund balance of the General Fund increased by \$203 thousand during fiscal year 2011. This is primarily due to the budgetary deficit of (\$322) thousand being offset by; 1) by a (\$241) thousand reduction in the liability for appellate tax board cases, 2) an increase of \$171 thousand for the Massachusetts School Building Authority receivable, and 3) the inclusion of \$105 thousand of stabilization fund activity in the general fund as a result of the implementation of GASB Statement #54.

The Capital Article Fund is used to account for various revenue financed capital projects. At the end of the current fiscal year the fund has a fund balance of \$9.8 million.

The Chapter 90 Highway fund is used to account for financial resources for the construction, reconstruction, and improvements to roadways, streets, and sidewalks. At the end of the current fiscal year the fund has a fund balance of \$2 thousand.

### ***General Fund Budgetary Highlights***

There was approximately a \$191 thousand increase between the original and final budget. This change primarily represented appropriation increases in public safety, education, public works, offset by decreases in general government and employee benefits. The Town has elected to carryforward encumbrances and appropriations totaling \$968 thousand.

**Business-type Activities.** Key elements of the business-type activities are as follows:

	<u>FY 2011</u> <u>Water &amp; Sewer</u> <u>Activities</u>	<u>FY 2010</u> <u>Water &amp; Sewer</u> <u>Activities</u>	<u>FY 2009</u> <u>Water &amp; Sewer</u> <u>Activities</u>
<b>Assets:</b>			
Current:			
Cash and short-term investments.....	\$ 5,666,909	\$ 2,658,965	\$ 928,684
Receivables, net of allowance for uncollectibles..	4,959,144	5,000,105	5,447,808
Other current assets.....	15,217	13,943	2,066
Capital assets.....	41,291,585	35,857,042	36,158,216
<b>Total assets.....</b>	<b>51,932,855</b>	<b>43,530,055</b>	<b>42,536,774</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	2,028,958	400,701	423,114
Noncurrent liabilities (excluding debt).....	1,343,243	1,442,236	1,038,480
Current debt.....	2,078,761	2,192,101	1,941,323
Noncurrent debt.....	11,600,191	12,678,951	12,540,452
<b>Total liabilities.....</b>	<b>17,051,153</b>	<b>16,713,989</b>	<b>15,943,369</b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	27,612,633	20,985,990	21,676,441
Unrestricted.....	7,269,069	5,830,076	4,916,964
<b>Total net assets.....</b>	<b>34,881,702</b>	<b>26,816,066</b>	<b>26,593,405</b>
<b>Program revenues:</b>			
Charges for services.....	24,190,848	22,545,102	21,754,052
Operating grants and contributions.....	34,620	-	-
Capital grants and contributions.....	3,937,252	-	-
<b>General Revenues:</b>			
Unrestricted investment income.....	2,789	-	-
Gain/(loss) on disposal of capital assets.....	(133,145)	(12,394)	(22,577)
<b>Total revenues.....</b>	<b>28,032,364</b>	<b>22,532,708</b>	<b>21,731,475</b>
<b>Expenses:</b>			
Water and sewer.....	22,039,432	20,505,232	20,673,186
<b>Transfers In/(Out).....</b>	<b>(1,643,181)</b>	<b>(1,804,815)</b>	<b>(1,830,405)</b>
<b>Change in net assets.....</b>	<b>\$ 4,349,751</b>	<b>\$ 222,661</b>	<b>\$ (772,116)</b>

The water and sewer enterprise net assets increased by \$4.3 million during the current fiscal year. This was primarily attributable to the receipt of a capital grant of \$3.9 million from the Massachusetts Water Resource Authority and an approximately \$102 thousand decrease in the liability relating to GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

	<u>FY 2011</u> <u>Golf Course</u> <u>Activities</u>	<u>FY 2010</u> <u>Golf Course</u> <u>Activities</u>	<u>FY 2009</u> <u>Golf Course</u> <u>Activities</u>
<b>Assets:</b>			
Current:			
Cash and short-term investments.....	\$ 508,608	\$ 239,401	\$ 261,510
Other current assets.....	7,192	16,689	30
Capital assets.....	<u>1,999,332</u>	<u>2,145,528</u>	<u>2,172,013</u>
<b>Total assets.....</b>	<b><u>2,515,132</u></b>	<b><u>2,401,618</u></b>	<b><u>2,433,553</u></b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	340,274	392,815	431,413
Noncurrent liabilities (excluding debt).....	50,287	57,226	44,023
Current debt.....	145,000	155,000	140,000
Noncurrent debt.....	<u>935,000</u>	<u>705,000</u>	<u>735,000</u>
<b>Total liabilities.....</b>	<b><u>1,470,561</u></b>	<b><u>1,310,041</u></b>	<b><u>1,350,436</u></b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	919,332	1,285,528	1,297,013
Unrestricted.....	<u>125,239</u>	<u>(193,951)</u>	<u>(213,896)</u>
<b>Total net assets.....</b>	<b><u>1,044,571</u></b>	<b><u>1,091,577</u></b>	<b><u>1,083,117</u></b>
<b>Program revenues:</b>			
Charges for services.....	1,122,854	1,129,605	1,176,267
<b>General Revenues:</b>			
Unrestricted investment income.....	516	3,369	9,902
Gain/loss on disposal of capital assets.....	<u>(107,742)</u>	<u>-</u>	<u>-</u>
<b>Total revenues.....</b>	<b><u>1,015,628</u></b>	<b><u>1,132,974</u></b>	<b><u>1,186,169</u></b>
<b>Expenses:</b>			
Golf.....	<u>896,473</u>	<u>954,220</u>	<u>997,585</u>
<b>Total expenses.....</b>	<b><u>896,473</u></b>	<b><u>954,220</u></b>	<b><u>997,585</u></b>
<b>Transfers In/(Out).....</b>	<b><u>(166,161)</u></b>	<b><u>(170,294)</u></b>	<b><u>(163,286)</u></b>
<b>Change in net assets.....</b>	<b>\$ <u>(47,006)</u></b>	<b>\$ <u>8,460</u></b>	<b>\$ <u>25,298</u></b>

The golf enterprise net assets decreased by (\$47) thousand during the current fiscal year. The decrease is primarily due to the loss of (\$108) thousand on disposal of capital assets. Excluding this loss, the Golf Enterprise net assets increased by approximately \$61 thousand which matched the primary objective of the fund where rates are designed to cover the cost of operations.

## ***Capital Planning and Budgeting***

Capital planning and budgeting is a critical undertaking for any government and is central to the delivery of essential services and the quality of life for residents. In fact, without a sound plan for long-term investment in infrastructure and equipment, the ability of local government to accomplish its goals is greatly hampered. In 1994, as part of the override discussion that year, the Board of Selectmen implemented a Financial Improvement Program. A key area addressed in the Program was capital planning and, since then, the Town has made a significant commitment to its Capital Improvement Program (CIP) to address the backlog of capital needs created by the under-investment in infrastructure during the late-1970's and the 1980's. Over the past decade (FY02 - FY11), the Town has authorized expenditures of more than \$180 million, for an average of \$18 million per year. Although there continues to be more to do in the areas of street and sidewalk repairs, parks/open space improvements, and school and town facilities upgrades, the commitment to capital improvements is showing positive results.

Each year's CIP takes into account a projected six-year view. The FY11 – FY16 CIP continued the Town's aggressive approach toward maintaining and improving the Town's physical assets. Developed within the parameters of the Board of Selectmen's CIP Policies, the CIP incorporated a number of major projects along with a financing plan that includes outside funding sources and grant opportunities. Part of the Town Administrator's plan to balance the FY10 budget was to reduce the 5.5% funding level to 5% for FY10, freeing-up \$917,000 for the Operating Budget. Those funds were used to reduce the level of cuts in the Operating Budget. This CIP follows the plan discussed to phase back-up to 5.5%, reaching 5.25% in FY11 and 5.5% in FY12. It is critical to return to the 5.5% level, as the amount of projected debt service in the out-years requires that level of funding for projects such as the Devotion School and Classroom Capacity.

In addition to the 5.5% financing, Free Cash, CDBG, and state/federal grants are the other key components of the overall financing strategy of the CIP. The Town's certified Free Cash for the fiscal year ending June 30, 2009 was \$4.6 million, providing the CIP with \$3.7 million of additional pay-as-you-go capacity for FY11. For the out-years of the CIP, \$3.75 million is estimated for Free Cash, which yields approximately \$3 million per year for the CIP. CDBG funds add \$2.25 million over the six-year CIP, a level of funding that reflects the Town's plans to utilize the CDBG Section 108 Loan Program. This program allows the Town to take a loan for the Village Square Project and pay it back with future CDBG funds. The "Other" funds category totals \$4.2 million, the largest piece being an expected \$3.25 million from the sale of the Town-owned Fisher Hill Reservoir that will be used to fund the construction of an active and passive recreation site on the State-owned land across the street.

State/Federal grants are a critical component of the CIP, totaling \$27.3 million over the six-year period. Of this amount, \$22.5 million represents the potential State share of the Devotion School Renovation Project. This CIP assumes 40% funding by the Massachusetts School Building Authority (MSBA) for the Devotion School project; the Town must wait at least a couple of years to see if MSBA funding will be awarded. If the MSBA does not approve funding for the Devotion School, then the total project will be \$33.8 million, not a \$56.3 million project, unless additional funding was made available through a Debt Exclusion vote.

There were a number of challenges presented during the development of the CIP that made balancing it difficult, including space needs for the schools, additional funding for Town Hall/Main Library Garages, and increased Runkle costs, which placed pressure on each of the out-years of the CIP. This required the deferral of numerous projects. The issue of classroom space in the elementary schools is one of the most pressing matters for the Town, and this CIP addresses it more comprehensively than in the past. The \$5 million programmed for FY12 follows the \$400,000 approved in both FY08 and FY10 for carving out additional classrooms in various schools and the \$29.1 million approved in FY10 for the renovation of and addition to the Runkle School.

The core of any CIP should be the maintenance / repair of and improvement to a community's infrastructure, and that is the case with this Proposed CIP. Governmental jurisdictions across the country continue to struggle with the issue of funding infrastructure needs, especially in these economic and budgetary times. Fortunately, Brookline's CIP policies (dedicated CIP funding) and taxpayer support (debt exclusions for Schools and an Override that included infrastructure needs) have allowed the community to fund these needs far more adequately than would otherwise be the case.

The following schedule reflects the CIP expenditure activity for fiscal 2011, together with outstanding encumbrances and available budget balances, for both Debt and Revenue Funded Capital Projects.

	All Capital Improvement Projects			Revenue Financed Projects			Debt Financed Projects		
	Expended in Fiscal 2011	Encumbrances	Available Budget	Expended in Fiscal 2011	Encumbrances	Available Budget	Expended in Fiscal 2011	Encumbrances	Available Budget
<b>General Government Capital Projects</b>									
General Government Projects	38,933	9,716	8,040	38,933	9,716	8,040	-	-	-
Planning Projects	137,811	37,520	0	137,811	37,520	-	-	-	-
Technology Projects	252,649	80,671	11,330	252,649	80,671	11,330	-	-	-
<b>Building &amp; Public Safety Projects</b>									
General Town Building Projects	1,110,049	1,182,659	2,002,529	633,906	995,265	548,380	476,142	187,393	1,454,150
Public Safety Building & Equipment Projects	175,559	0	26,527	175,559	-	26,527	-	-	-
Library Building Projects	251,769	5,850	29,368	251,769	5,850	29,368	-	-	-
DPW Building Projects	-	-	40,000	-	-	40,000	-	-	-
School Building Projects	4,514,136	19,011,206	6,377,959	779,993	168,730	587,863	3,734,143	18,842,476	5,790,096
<b>DPW Projects</b>									
Landfill Related Projects	468,350	140,678	4,134,946	461,582	140,678	813,157	6,768	-	3,321,789
Highway -Traffic Related Projects	3,011,069	871,401	4,647,134	3,011,069	871,401	3,247,134	-	-	1,400,000
Park Related Projects	2,027,682	636,239	3,246,307	1,212,879	216,239	1,886,110	814,803	420,000	1,360,197
<b>Recreation-Library Projects</b>									
Library Projects	172,032	1,600	96,151	172,032	1,600	96,151	-	-	-
<b>DPW Enterprise Related Projects</b>									
	383,139	199,653	4,872,316	113,669	-	30,763	269,470	199,653	4,841,553
<b>Golf Enterprise Projects</b>									
	54,118	4,584	1,282,307	-	-	-	54,118	4,584	1,282,307
<b>GRAND TOTAL</b>	<b>12,597,296</b>	<b>22,181,779</b>	<b>26,774,914</b>	<b>7,241,851</b>	<b>2,527,671</b>	<b>7,324,823</b>	<b>5,355,445</b>	<b>19,654,107</b>	<b>19,450,091</b>

### Capital Asset and Debt Administration

**Capital Assets.** The Town of Brookline's investment in capital assets for its governmental and business type activities as of June 30, 2011 amount to \$231.5 million (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 \$3.3 million, including a \$3.0 million increase for governmental activities and a \$257 thousand increase for business-type activities.

As noted in the table above the Town's major capital projects relate to school renovations and various infrastructure projects.

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

- ❖ Approximately \$2.2 million was spent on roads, sidewalks, and other related infrastructure.
- ❖ Approximately \$3.4 million was spent on machinery and equipment.
- ❖ Approximately \$830 thousand was spent on land acquisition.
- ❖ Approximately \$2.4 million was spent on building renovations and improvements.

Please see Note 4 for further capital asset information.

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

	Governmental		Business –Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Land	874,873	79,727	-	-	874,873	79,727
Construction in Progress	5,387,090	845,350	-	-	5,387,090	845,350
Land Improvements	12,189,556	12,510,071	946,034	945,727	13,135,590	13,455,798
Buildings	145,477,003	148,804,928	2,676,698	2,771,574	148,153,701	151,576,502
Machinery and Equipment	11,562,467	11,033,531	694,321	884,348	12,256,788	11,917,879
Infrastructure	17,770,783	16,954,837	38,973,864	37,116,806	56,744,647	54,071,643
<b>Total</b>	<b>193,261,772</b>	<b>190,228,444</b>	<b>43,290,917</b>	<b>41,718,455</b>	<b>236,552,689</b>	<b>231,946,899</b>

**Long-term Debt.** At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$75,955,000, of which \$61,196,048 is governmental debt and \$14,758,952 in business type debt. All of this amount is classified as outstanding long-term debt. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources. During fiscal year 2011, the Town retired long term debt of \$9,452,500.

The Town of Brookline issued \$11,025,000 of general obligation bonds. These bonds were used to finance several capital improvement projects. Included in these issues was \$9,650,000 in general obligation bonds for renovations to the Runkle School, \$1,000,000 for Sewer improvements, and \$375,000 for the Golf Course.

Please see notes 7 and 8 for further debt information.

In fiscal 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. The Town has been approved for projects at the Runkle and Heath School's under this program. Through the end of fiscal year 2011, the Town has recorded capital grant revenue totaling approximately \$1,097,000 and \$67,000 respectfully, from the MSBA which is equal to 40% and 34.5% of approved construction costs incurred to date. The Town received \$876,000 of reimbursements related to the Runkle School and \$67,000 related to the Heath School in fiscal 2011.

**Cash and Investments**

At June 30, 2011, the Town had recorded a Cash and Investments balance of \$90,337,869. Additional adjustments for accounts not maintained by the Treasurer, but included in overall financial statement cash, were Library Cash \$(232,580) and Investment accounts \$(4,081,680) maintained by the Trustees of the Brookline Public Library; and Retirement Cash \$(2,402,588) and Investment accounts \$(209,659,195) maintained by the Brookline Retirement System. This resulted in total Cash and Investments of \$306,713,912 as reflected in the Basic Financial Statements.

**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.brookline.ma.gov/>.

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# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2011

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 67,887,558	\$ 6,175,517	\$ 74,063,075
Investments.....	5,361,725	-	5,361,725
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,812,337	-	1,812,337
Tax liens.....	1,401,370	-	1,401,370
Motor vehicle excise taxes.....	241,813	-	241,813
User fees.....	125,594	-	125,594
Water and sewer fees.....	-	4,959,144	4,959,144
Departmental and other.....	5,408,299	-	5,408,299
Intergovernmental.....	7,572,918	-	7,572,918
Loans.....	135,287	-	135,287
Internal balances.....	275,000	(275,000)	-
Prepaid expenses.....	310,500	22,409	332,909
<b>NONCURRENT:</b>			
Restricted assets:			
Intergovernmental.....	4,411,000	-	4,411,000
Capital assets, nondepreciable.....	6,261,963	-	6,261,963
Capital assets, net of accumulated depreciation.....	186,999,809	43,290,917	230,290,726
<b>TOTAL ASSETS.....</b>	<b>288,205,173</b>	<b>54,172,987</b>	<b>342,378,160</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	3,071,158	1,658,941	4,730,099
Accrued liabilities.....	143,777	120	143,897
Accrued payroll.....	1,655,011	-	1,655,011
Tax refunds payable.....	2,129,000	-	2,129,000
Accrued interest.....	590,128	137,357	727,485
Abandoned property.....	171,743	-	171,743
Other liabilities.....	573,346	7,198	580,544
Deferred revenue.....	475,740	-	475,740
Customer deposits payable.....	9,253	-	9,253
Landfill closure.....	165,000	-	165,000
Compensated absences.....	5,905,415	290,616	6,196,031
Workers' compensation.....	245,750	-	245,750
Bonds payable.....	7,796,238	2,223,761	10,019,999
<b>NONCURRENT:</b>			
Landfill closure.....	4,505,000	-	4,505,000
Compensated absences.....	3,687,093	104,587	3,791,680
Workers' compensation.....	737,250	-	737,250
Postretirement benefits.....	33,427,338	1,288,943	34,716,281
Bonds payable.....	53,399,809	12,535,191	65,935,000
<b>TOTAL LIABILITIES.....</b>	<b>118,688,049</b>	<b>18,246,714</b>	<b>136,934,763</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	145,193,503	28,531,965	173,725,468
Restricted for:			
Loans.....	135,287	-	135,287
Permanent funds:			
Expendable.....	5,134,017	-	5,134,017
Nonexpendable.....	1,150,127	-	1,150,127
Other purposes.....	24,049,701	-	24,049,701
Unrestricted.....	(6,145,511)	7,394,308	1,248,797
<b>TOTAL NET ASSETS.....</b>	<b>\$ 169,517,124</b>	<b>\$ 35,926,273</b>	<b>\$ 205,443,397</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 19,600,852	\$ 4,766,523	\$ 2,014,101	\$ -	\$ (12,820,228)
Public safety.....	47,579,531	7,927,922	529,726	-	(39,121,883)
Education.....	120,484,530	6,236,409	30,607,567	1,082,836	(82,557,718)
Public works.....	19,656,664	3,169,289	133,282	-	(16,354,093)
Community and economic development.....	1,717,158	-	3,511,618	-	1,794,460
Human services.....	4,253,740	33,168	405,797	-	(3,814,775)
Leisure services.....	8,694,233	2,537,644	132,972	-	(6,023,617)
Interest.....	2,223,231	-	258,315	-	(1,964,916)
<b>Total Governmental Activities.....</b>	<b>224,209,939</b>	<b>24,670,955</b>	<b>37,593,378</b>	<b>1,082,836</b>	<b>(160,862,770)</b>
<i>Business-Type Activities:</i>					
Golf.....	896,473	1,122,854	-	-	226,381
Water and sewer.....	22,039,432	24,190,848	34,620	3,937,252	6,123,288
<b>Total Business-Type Activities.....</b>	<b>22,935,905</b>	<b>25,313,702</b>	<b>34,620</b>	<b>3,937,252</b>	<b>6,349,669</b>
<b>Total Primary Government.....</b>	<b>\$ 247,145,844</b>	<b>\$ 49,984,657</b>	<b>\$ 37,627,998</b>	<b>\$ 5,020,088</b>	<b>\$ (154,513,101)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(160,862,770)</b>	\$ <b>6,349,669</b>	\$ <b>(154,513,101)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	156,404,746	-	156,404,746
Motor vehicle and other excise taxes.....	5,227,536	-	5,227,536
Hotel/motel tax.....	1,244,887	-	1,244,887
Penalties and interest on taxes.....	498,405	-	498,405
Payments in lieu of taxes.....	908,270	-	908,270
Grants and contributions not restricted to specific programs.....	5,544,701	-	5,544,701
Unrestricted investment income.....	1,380,045	3,305	1,383,350
Gain (loss) on disposal of capital assets.....	1,500,417	(240,887)	1,259,530
Miscellaneous.....	1,157,096	-	1,157,096
<i>Transfers, net</i> .....	1,809,342	(1,809,342)	-
Total general revenues and transfers.....	<u>175,675,445</u>	<u>(2,046,924)</u>	<u>173,628,521</u>
Change in net assets.....	14,812,675	4,302,745	19,115,420
<i>Net Assets:</i>			
Beginning of year (as restated).....	<u>154,704,449</u>	<u>31,623,528</u>	<u>186,327,977</u>
End of year.....	\$ <u><u>169,517,124</u></u>	\$ <u><u>35,926,273</u></u>	\$ <u><u>205,443,397</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2011

<b>ASSETS</b>	<u>General</u>	<u>Capital Article Fund</u>	<u>Chapter 90 Highway Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 27,853,934	\$ 9,979,112	\$ 9,027	\$ 25,644,044	\$ 63,486,117
Investments.....	-	-	-	5,361,725	5,361,725
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	1,812,337	-	-	-	1,812,337
Tax liens.....	1,401,370	-	-	-	1,401,370
Motor vehicle excise taxes.....	241,813	-	-	-	241,813
User fees.....	125,594	-	-	-	125,594
Departmental and other.....	2,773,555	-	-	2,634,744	5,408,299
Intergovernmental.....	6,014,046	-	2,664,564	3,305,308	11,983,918
Loans.....	-	-	-	135,287	135,287
Due from other funds.....	275,000	-	-	-	275,000
Prepaid expenses.....	297,233	-	-	13,267	310,500
<b>TOTAL ASSETS.....</b>	<b>\$ 40,794,882</b>	<b>\$ 9,979,112</b>	<b>\$ 2,673,591</b>	<b>\$ 37,094,375</b>	<b>\$ 90,541,960</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Warrants payable.....	\$ 1,302,887	\$ 129,068	\$ 7,393	\$ 1,597,359	\$ 3,036,707
Accrued liabilities.....	50,134	4,621	-	89,022	143,777
Accrued payroll.....	1,608,518	-	-	46,493	1,655,011
Tax refunds payable.....	2,129,000	-	-	-	2,129,000
Liabilities due depositors.....	9,253	-	-	-	9,253
Abandoned property.....	165,746	-	-	5,997	171,743
Other liabilities.....	539,980	-	-	33,366	573,346
Deferred revenues.....	11,465,316	-	2,664,564	2,766,013	16,895,893
<b>TOTAL LIABILITIES.....</b>	<b>17,270,834</b>	<b>133,689</b>	<b>2,671,957</b>	<b>4,538,250</b>	<b>24,614,730</b>
<b>FUND BALANCES:</b>					
Nonspendable.....	-	-	-	1,150,127	1,150,127
Restricted.....	-	-	1,634	24,227,247	24,228,881
Committed.....	-	9,845,423	-	7,178,751	17,024,174
Assigned.....	968,972	-	-	-	968,972
Unassigned.....	22,555,076	-	-	-	22,555,076
<b>TOTAL FUND BALANCES.....</b>	<b>23,524,048</b>	<b>9,845,423</b>	<b>1,634</b>	<b>32,556,125</b>	<b>65,927,230</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 40,794,882</b>	<b>\$ 9,979,112</b>	<b>\$ 2,673,591</b>	<b>\$ 37,094,375</b>	<b>\$ 90,541,960</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

Total governmental fund balances.....		\$ 65,927,230
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		193,261,772
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		16,420,153
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.....		3,383,990
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(590,128)
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.....	(61,196,047)	
Landfill closure.....	(4,670,000)	
Postretirement benefits.....	(33,427,338)	
Compensated absences.....	(9,592,508)	
Net effect of reporting long-term liabilities.....		<u>(108,885,893)</u>
Net assets of governmental activities.....		<u>\$ 169,517,124</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	General	Capital Article Fund	Chapter 90 Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 156,157,408	\$ -	\$ -	\$ -	\$ 156,157,408
Motor vehicle and other excise taxes.....	5,178,153	-	-	-	5,178,153
Hotel/motel tax.....	1,244,887	-	-	-	1,244,887
Charges for services.....	4,776,101	-	-	-	4,776,101
Penalties and interest on taxes.....	498,405	-	-	-	498,405
Payments in lieu of taxes.....	908,270	-	-	-	908,270
Licenses and permits.....	3,586,851	-	-	-	3,586,851
Fines and forfeitures.....	4,274,494	-	-	-	4,274,494
Intergovernmental.....	29,019,485	66,035	584,742	11,761,692	41,431,954
Departmental and other.....	1,238,807	-	-	13,248,967	14,487,774
Contributions.....	-	-	-	1,157,217	1,157,217
Investment income.....	433,933	-	-	937,985	1,371,918
<b>TOTAL REVENUES.....</b>	<b>207,316,794</b>	<b>66,035</b>	<b>584,742</b>	<b>27,105,861</b>	<b>235,073,432</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	8,336,784	1,509,527	-	1,264,484	11,110,795
Public safety.....	33,799,665	173,675	-	754,884	34,728,224
Education.....	72,076,627	884,022	-	20,053,854	93,014,503
Public works.....	14,444,282	4,091,523	660,636	307,459	19,503,900
Community and economic development.....	-	-	-	1,717,158	1,717,158
Human services.....	2,275,520	-	-	974,619	3,250,139
Leisure services.....	4,444,419	490,505	-	2,125,639	7,060,563
Pension benefits.....	28,600,375	-	-	-	28,600,375
Fringe benefits.....	26,087,430	-	-	-	26,087,430
State and county charges.....	5,576,032	-	-	-	5,576,032
Debt service:					
Principal.....	7,105,400	-	-	-	7,105,400
Interest.....	2,109,205	-	-	-	2,109,205
<b>TOTAL EXPENDITURES.....</b>	<b>204,855,739</b>	<b>7,149,252</b>	<b>660,636</b>	<b>27,198,097</b>	<b>239,863,724</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>2,461,055</b>	<b>(7,083,217)</b>	<b>(75,894)</b>	<b>(92,236)</b>	<b>(4,790,292)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from bonds and notes.....	-	-	-	9,650,000	9,650,000
Premium from issuance of bonds, net of expenditures.....	14,507	-	-	-	14,507
Sale of capital assets.....	-	-	-	3,250,000	3,250,000
Transfers in.....	4,829,278	7,102,000	-	-	11,931,278
Transfers out.....	(7,102,000)	(21,176)	-	(2,998,760)	(10,121,936)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(2,258,215)</b>	<b>7,080,824</b>	<b>-</b>	<b>9,901,240</b>	<b>14,723,849</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>202,840</b>	<b>(2,393)</b>	<b>(75,894)</b>	<b>9,809,004</b>	<b>9,933,557</b>
<b>FUND BALANCES AT BEGINNING OF YEAR (AS REVISED).....</b>	<b>23,321,208</b>	<b>9,847,816</b>	<b>77,528</b>	<b>22,747,121</b>	<b>55,993,673</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 23,524,048</b>	<b>\$ 9,845,423</b>	<b>\$ 1,634</b>	<b>\$ 32,556,125</b>	<b>\$ 65,927,230</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds.....		\$ 9,933,557
<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.....	14,378,581	
Depreciation expense.....	<u>(9,595,670)</u>	
Net effect of reporting capital assets.....		4,782,911
<p>In the Statement of Activities, only the gain on the disposal of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....</p>		
		(1,749,583)
<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>		
		631,296
<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>		
Proceeds from bonds and notes.....	(9,650,000)	
Debt service principal payments.....	<u>7,105,400</u>	
Net effect of reporting long-term debt.....		(2,544,600)
<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.....	(161,135)	
Net change in accrued interest on long-term debt.....	(128,532)	
Net change in postretirement benefit accrual.....	2,730,811	
Net change in landfill accrual.....	<u>1,093,000</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		3,534,144
<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>224,950</u>
Change in net assets of governmental activities.....		\$ <u>14,812,675</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**

JUNE 30, 2011

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 5,666,909	\$ 508,608	\$ 6,175,517	\$ 4,401,441
Receivables, net of allowance for uncollectibles:				
Water and sewer fees.....	4,959,144	-	4,959,144	-
Prepaid expenses.....	15,217	7,192	22,409	-
Total current assets.....	<u>10,641,270</u>	<u>515,800</u>	<u>11,157,070</u>	<u>4,401,441</u>
<b>NONCURRENT:</b>				
Capital assets, net of accumulated depreciation.....	41,291,585	1,999,332	43,290,917	-
<b>TOTAL ASSETS.....</b>	<u>51,932,855</u>	<u>2,515,132</u>	<u>54,447,987</u>	<u>4,401,441</u>
<b>LIABILITIES</b>				
<b>CURRENT:</b>				
Warrants payable.....	1,646,925	12,016	1,658,941	34,451
Accrued liabilities.....	120	-	120	-
Accrued interest.....	127,842	9,515	137,357	-
Due to other funds.....	-	275,000	275,000	-
Other liabilities.....	-	7,198	7,198	-
Compensated absences.....	254,071	36,545	290,616	-
Workers' compensation.....	-	-	-	245,750
Bonds payable.....	2,078,761	145,000	2,223,761	-
Total current liabilities.....	<u>4,107,719</u>	<u>485,274</u>	<u>4,592,993</u>	<u>280,201</u>
<b>NONCURRENT:</b>				
Compensated absences.....	93,337	11,250	104,587	-
Workers' compensation.....	-	-	-	737,250
Postretirement benefits.....	1,249,906	39,037	1,288,943	-
Bonds payable.....	11,600,191	935,000	12,535,191	-
Total noncurrent liabilities.....	<u>12,943,434</u>	<u>985,287</u>	<u>13,928,721</u>	<u>737,250</u>
<b>TOTAL LIABILITIES.....</b>	<u>17,051,153</u>	<u>1,470,561</u>	<u>18,521,714</u>	<u>1,017,451</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	27,612,633	919,332	28,531,965	-
Unrestricted.....	7,269,069	125,239	7,394,308	3,383,990
<b>TOTAL NET ASSETS.....</b>	<u>\$ 34,881,702</u>	<u>\$ 1,044,571</u>	<u>\$ 35,926,273</u>	<u>\$ 3,383,990</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
<b>OPERATING REVENUES:</b>				
Employer contributions .....	\$ -	\$ -	\$ -	\$ 2,530,503
Charges for services .....	24,190,848	1,122,854	25,313,702	-
Intergovernmental.....	3,971,872	-	3,971,872	-
<b>TOTAL OPERATING REVENUES .....</b>	<b>28,162,720</b>	<b>1,122,854</b>	<b>29,285,574</b>	<b>2,530,503</b>
<b>OPERATING EXPENSES:</b>				
Cost of services and administration .....	20,479,542	774,660	21,254,202	-
Depreciation.....	1,044,483	83,909	1,128,392	-
Building and liability insurance claims.....	-	-	-	270,921
Employee benefits .....	-	-	-	2,042,759
<b>TOTAL OPERATING EXPENSES .....</b>	<b>21,524,025</b>	<b>858,569</b>	<b>22,382,594</b>	<b>2,313,680</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>6,638,695</b>	<b>264,285</b>	<b>6,902,980</b>	<b>216,823</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income.....	2,789	516	3,305	8,127
Interest expense.....	(515,407)	(37,904)	(553,311)	-
Loss on disposal of capital assets.....	(133,145)	(107,742)	(240,887)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(645,763)</b>	<b>(145,130)</b>	<b>(790,893)</b>	<b>8,127</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>5,992,932</b>	<b>119,155</b>	<b>6,112,087</b>	<b>224,950</b>
<b>TRANSFERS:</b>				
Transfers out.....	(1,643,181)	(166,161)	(1,809,342)	-
<b>CHANGE IN NET ASSETS.....</b>	<b>4,349,751</b>	<b>(47,006)</b>	<b>4,302,745</b>	<b>224,950</b>
<b>NET ASSETS AT BEGINNING OF YEAR (AS RESTATED)...</b>	<b>30,531,951</b>	<b>1,091,577</b>	<b>31,623,528</b>	<b>3,159,040</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 34,881,702</b>	<b>\$ 1,044,571</b>	<b>\$ 35,926,273</b>	<b>\$ 3,383,990</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from customers and users.....	\$ 24,231,809	\$ 1,122,854	\$ 25,354,663	\$ -
Receipts from interfund services provided.....	-	-	-	2,530,503
Receipts from other governments.....	3,971,872	-	3,971,872	-
Payments to vendors.....	(17,998,323)	(430,933)	(18,429,256)	(2,218,332)
Payments to employees.....	(2,180,136)	(397,484)	(2,577,620)	-
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>8,025,222</b>	<b>294,437</b>	<b>8,319,659</b>	<b>312,171</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>				
Transfers out.....	(1,643,181)	(166,161)	(1,809,342)	-
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>				
Proceeds from the issuance of bonds and notes.....	1,000,000	375,000	1,375,000	-
Acquisition and construction of capital assets.....	(1,655,531)	(45,455)	(1,700,986)	-
Principal payments on bonds.....	(2,192,100)	(155,000)	(2,347,100)	-
Interest expense.....	(529,255)	(34,130)	(563,385)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(3,376,886)</b>	<b>140,415</b>	<b>(3,236,471)</b>	<b>-</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Investment income.....	2,789	516	3,305	8,127
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>3,007,944</b>	<b>269,207</b>	<b>3,277,151</b>	<b>320,298</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (AS RESTATED).....</b>	<b>2,658,965</b>	<b>239,401</b>	<b>2,898,366</b>	<b>4,081,143</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 5,666,909</b>	<b>\$ 508,608</b>	<b>\$ 6,175,517</b>	<b>\$ 4,401,441</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>				
Operating income (loss).....	\$ 6,638,695	\$ 264,285	\$ 6,902,980	\$ 216,823
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	1,044,483	83,909	1,128,392	-
Changes in assets and liabilities:				
Charges for services receivable.....	40,961	-	40,961	-
Due to other funds.....	-	(25,000)	(25,000)	-
Prepaid expenses.....	(1,274)	9,497	8,223	-
Warrants payable.....	381,999	(18,472)	363,527	12,348
Postretirement benefits.....	(102,110)	(3,189)	(105,299)	-
Accrued liabilities.....	(919)	-	(919)	-
Other liabilities.....	-	(2,976)	(2,976)	-
Accrued compensated absences.....	23,387	(13,617)	9,770	-
Workers' compensation.....	-	-	-	83,000
<b>Total adjustments.....</b>	<b>1,386,527</b>	<b>30,152</b>	<b>1,416,679</b>	<b>95,348</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 8,025,222</b>	<b>\$ 294,437</b>	<b>\$ 8,319,659</b>	<b>\$ 312,171</b>
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>				
Loss on disposal of fixed assets.....	\$ 133,145	\$ 107,742	\$ 240,887	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 2,402,588	\$ 225,243	\$ 1,147,193	\$ -
Investments.....	209,659,195	10,657,097	3,197,796	-
Interest and dividends.....	388	-	-	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	169,295	-	-	525,646
Due from other funds.....	-	-	525,646	-
<b>TOTAL ASSETS.....</b>	<b>212,231,466</b>	<b>10,882,340</b>	<b>4,870,635</b>	<b>525,646</b>
<b>LIABILITIES</b>				
Warrants payable.....	182,231	-	-	-
Accrued liabilities.....	-	-	325,691	-
Due to other funds.....	-	-	-	525,646
<b>TOTAL LIABILITIES.....</b>	<b>182,231</b>	<b>-</b>	<b>325,691</b>	<b>525,646</b>
<b>NET ASSETS</b>				
Held in trust for pension benefits, opeb, and other purposes..	\$ <u>212,049,235</u>	\$ <u>10,882,340</u>	\$ <u>4,544,944</u>	\$ <u>-</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer.....	\$ 15,321,487	\$ 2,013,731	\$ -
Employee.....	5,410,699	-	-
Private donations.....	-	-	171,299
<b>Total contributions.....</b>	<b>20,732,186</b>	<b>2,013,731</b>	<b>171,299</b>
Net investment income (loss):			
Net change in fair value of investments.....	23,351,153	-	-
Investment income (loss).....	3,310,481	1,594,099	576,024
<b>Total investment income (loss).....</b>	<b>26,661,634</b>	<b>1,594,099</b>	<b>576,024</b>
Less: investment expense.....	(949,002)	-	-
<b>Net investment income (loss).....</b>	<b>25,712,632</b>	<b>1,594,099</b>	<b>576,024</b>
Intergovernmental.....	666,996	-	-
Transfers from other systems.....	517,886	-	-
<b>TOTAL ADDITIONS.....</b>	<b>47,629,700</b>	<b>3,607,830</b>	<b>747,323</b>
<b>DEDUCTIONS:</b>			
Administration.....	554,735	80,313	961
Transfers to other systems.....	834,592	-	-
Retirement benefits and refunds.....	23,518,734	-	-
Educational scholarships.....	-	-	203,965
<b>TOTAL DEDUCTIONS.....</b>	<b>24,908,061</b>	<b>80,313</b>	<b>204,926</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>22,721,639</b>	<b>3,527,517</b>	<b>542,397</b>
<b>NET ASSETS AT BEGINNING OF YEAR (AS REVISED).....</b>	<b>189,327,596</b>	<b>7,354,823</b>	<b>4,002,547</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 212,049,235</b>	<b>\$ 10,882,340</b>	<b>\$ 4,544,944</b>

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 and human services, elder and leisure services.

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

**Availability of Financial Information for Component Units**

The Retirement System did not issue a separate audited financial statement. The Retirement 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 Retirement 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. However, the effect of interfund services provided and used between functions is not eliminated as the 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, and 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 within 60 days of fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

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

The following major governmental funds are reported:

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

The *capital article fund* is used to account for revenue financed capital projects.

The *chapter 90 highway* fund is used to account for financial resources for the construction, reconstruction, and improvements to roadways, streets, and sidewalks.

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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

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

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

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

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

The following major proprietary funds are reported:

The *water & 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, (including the fiduciary-managed trust fund for Other Postretirement Benefits), workers' compensation, unemployment and municipal building insurance. The Town also uses this fund to accumulate reserves for postemployment benefits.

**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 Retirement System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *other postemployment benefits trust fund* is used to accumulate assets which will be used to offset future postemployment benefit costs.

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 Taxes, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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

***Motor Vehicle Excise***

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

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

***Refuse***

Refuse fees are levied 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 fully 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 parking tickets 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 costing more than \$15,000 and having a useful life of greater than one year are capitalized.

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 interest free 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 interest free 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 Purposes" represents amounts restricted by outside sources for specific purposes.

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

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

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

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

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed.

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

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

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

Q. 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.

R. 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.

S. Prior Period Reclassification and Restatement

During the current fiscal year, the Town elected to report the Other Postemployment Benefits Trust Fund (OPEB) separately from the Internal Service Fund. The result is a beginning balance reclassification of \$7,354,823 from the Internal Service Fund to the OPEB Trust Fund. Because the OPEB Trust Fund is now classified as a Fiduciary Fund, the beginning balance of governmental net assets has also been decreased by the same amount to a balance of \$154,704,449.

Beginning net assets of the Water & Sewer Enterprise fund have been restated by \$3,715,885 to account for previously unrecognized capital assets which were constructed entirely with grant funds.

**NOTE 2 - CASH AND INVESTMENTS**

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

For the general fund, 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). Trust fund investments are subject to the Town's investment policies which are described further in this note. 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 \$50,710,675 and the bank balance totaled \$54,111,895. Of the bank balance, \$1,495,355 was covered by Federal Depository Insurance and \$52,616,540 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Town's cash and cash equivalents consist of \$50,710,675 in deposits and \$24,724,836 in cash equivalents. These cash and cash equivalents are reported in both the primary government and the fiduciary funds. Those amounts total \$74,063,075 and \$1,372,436, respectively. See investments below for amounts designated as cash equivalents.

At December 31, 2010, the carrying amount of deposits for the Retirement System totaled \$152,404 and the bank balance totaled \$565,951. The entire bank balance of \$565,951 was covered by Federal Depository Insurance.

The Retirement System's cash and cash equivalents consist of \$152,404 in deposits and \$2,250,184 in cash equivalents, totaling \$2,402,588. See investments below for amounts designated as cash equivalents.

Investments

The Town of Brookline had the following investments, including cash equivalents classified as investments, at June 30, 2011:

Investment Type	Fair Value	Maturity			
		Under 1 Year	1-5 Years	6-10 Years	Over 10 Years
<u>Debt Securities</u>					
United States Treasury.....	\$ 860,107	\$ 585,043	\$ 164,499	\$ 7,359	\$ 103,206
Federal National Mortgage Asso.....	750,173	-	76,001	31,385	642,787
Federal Home Loan Mortgage Corp.....	174,954	-	-	9,134	165,820
Total Debt Securities.....	\$ 1,785,234	\$ 585,043	\$ 240,500	\$ 47,878	\$ 911,813
<u>Other Investments</u>					
Alternative Investments - hedge funds.....	2,129,552				
Bond Mutual Funds.....	283,966				
Equity Securities.....	7,602,859				
Equity Mutual Funds.....	7,415,007				
Repurchase Agreements (*).....	729,041				
Money Market Mutual Funds (*).....	273,336				
MMDT (*).....	23,722,459				
Total Investments.....	\$ 43,941,454				

(\*) designates cash equivalent

Total investments per above.....	\$ 43,941,454
Less: cash equivalents.....	(24,724,836)
Total Town investments.....	\$ 19,216,618

The Town's investments are reported in both the primary government and the fiduciary funds. Those amounts total \$5,361,725 and \$13,854,893, respectively. Included in the primary government, and reported in the internal service funds, is \$10,657,097 of investments accumulated for the funding of employee postretirement benefits.

As of December 31, 2010, the Retirement System had the following investments:

<u>Other Investments</u>	
Equity Security Mutual Funds.....	\$ 108,488,884
International Securities.....	41,992,302
PRIT Investments.....	25,634,759
Alternative Investments-Real Estate.....	33,543,250
Money Market Mutual Funds (*).....	2,250,184
Total Investments.....	\$ 211,909,379

(\*) designates cash equivalent

Custodial Credit Risk – Town 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, \$860,107 in U.S. Treasury Securities, \$750,173 in Federal National Mortgage Association, \$174,954 in Federal Home Loan Mortgage Corporation, and \$7,602,860 in Equity Securities, the Town has custodial credit risk exposure of \$9,388,094 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 – Town Investments

In investments other than the general fund, the Town’s formal investment policy limits the selection of investments to the prudent investor rule, which states that the trustee should exercise reasonable care, skill, and caution. 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.

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

Credit Risk – Town Investments

The Town has adopted a formal policy related to credit risk. At June 30, 2011 the Town’s debt securities were rated as follows:

<u>Rated Debt Investments - Town's</u>				
<u>Quality Ratings</u>	<u>United States Treasury</u>	<u>Federal National Mortgage Asso.</u>	<u>Federal Home Loan Mortgage Corp.</u>	<u>Totals</u>
AAA.....	\$ 860,107	\$ 750,173	\$ 174,954	\$ 1,785,234

Custodial Credit Risk – Retirement System Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Retirement 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 Retirement System's investments the \$41,992,302 in International Securities the Retirement System has custodial credit risk exposure of \$41,992,302 because the related securities are uninsured, unregistered and held by the counterparty.

The Retirement System has an investment policy for custodial credit risk that states the Retirement 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 Retirement System will utilize extensive diversification to minimize company and industry specific risks while avoiding extreme levels of volatility that could adversely affect the Retirement Systems' participants.

Interest Rate Risk – Retirement System

The Retirement System has a formal investment policy that establishes the objectives and constraints that govern the investment of the Retirement System's assets. The Retirement 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 Retirement 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.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 11.6 years.

Concentration of Credit Risk

The Town limits the amount that may be invested in any one issuer to 5% of the total investments. At June 30, 2011, the Town does not have any investments that exceed the 5% threshold.

The Retirement System limits the amount that may be invested in any one issuer to 5% of the total investments. At December 31, 2010, the Retirement System does not have any investments that exceed the 5% threshold.

**NOTE 3 – RECEIVABLES**

At June 30, 2011, receivables for the individual major governmental funds and non-major internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes....	\$ 1,812,337	\$ -	\$ 1,812,337
Tax liens.....	1,401,370	-	1,401,370
Motor vehicle and other excise taxes.....	425,846	(184,033)	241,813
User fees.....	125,594	-	125,594
Departmental and other.....	6,353,299	(945,000)	5,408,299
Intergovernmental.....	11,983,918	-	11,983,918
Loans.....	135,287	-	135,287
Total.....	<u>\$ 22,237,651</u>	<u>\$ (1,129,033)</u>	<u>\$ 21,108,618</u>

At June 30, 2011, receivables for the water and sewer enterprise fund totaled \$4,959,144. The amount is considered fully collectible.

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

	General Fund	Other Governmental Funds	Total
<u>Type:</u>			
Real estate and personal property taxes....	\$ 1,262,133	\$ -	\$ 1,262,133
Tax liens.....	1,361,835	-	1,361,835
Motor vehicle and other excise taxes.....	241,813	-	241,813
User fees.....	125,594	-	125,594
Departmental and other.....	2,795,941	517,642	3,313,583
Intergovernmental.....	5,403,000	4,912,935	10,315,935
<u>Other asset type:</u>			
Due from other funds.....	275,000	-	275,000
Total.....	<u>\$ 11,465,316</u>	<u>\$ 5,430,577</u>	<u>\$ 16,895,893</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 79,727	\$ 829,873	\$ (34,727)	\$ 874,873
Construction in progress.....	845,350	4,541,740	-	5,387,090
Total capital assets not being depreciated....	<u>925,077</u>	<u>5,371,613</u>	<u>(34,727)</u>	<u>6,261,963</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	22,157,677	1,255,733	(1,838,311)	21,575,099
Buildings.....	241,934,784	2,360,756	(2,679,975)	241,615,565
Machinery and equipment.....	33,787,770	3,162,935	(12,380,067)	24,570,638
Infrastructure.....	41,621,142	2,227,544	(2,414,867)	41,433,819
Total capital assets being depreciated.....	<u>339,501,373</u>	<u>9,006,968</u>	<u>(19,313,220)</u>	<u>329,195,121</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(9,647,606)	(817,882)	1,079,945	(9,385,543)
Buildings.....	(93,129,856)	(5,403,294)	2,394,588	(96,138,562)
Machinery and equipment.....	(22,754,239)	(1,962,896)	11,708,964	(13,008,171)
Infrastructure.....	(24,666,305)	(1,411,598)	2,414,867	(23,663,036)
Total accumulated depreciation.....	<u>(150,198,006)</u>	<u>(9,595,670)</u>	<u>17,598,364</u>	<u>(142,195,312)</u>
Total capital assets being depreciated, net.....	<u>189,303,367</u>	<u>(588,702)</u>	<u>(1,714,856)</u>	<u>186,999,809</u>
Total governmental activities capital assets, net.....	<u>\$ 190,228,444</u>	<u>\$ 4,782,911</u>	<u>\$ (1,749,583)</u>	<u>\$ 193,261,772</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water &amp; Sewer Activities:</b>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 201,230	\$ -	\$ -	\$ 201,230
Buildings.....	2,570,876	-	-	2,570,876
Machinery and equipment.....	2,009,129	235,172	(547,677)	1,696,624
Infrastructure.....	52,316,160	2,661,114	-	54,977,274
Total capital assets being depreciated.....	57,097,395	2,896,286	(547,677)	59,446,004
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(53,321)	(6,574)	-	(59,895)
Buildings.....	(1,006,943)	(56,077)	-	(1,063,020)
Machinery and equipment.....	(1,264,850)	(177,776)	414,532	(1,028,094)
Infrastructure.....	(15,199,354)	(804,056)	-	(16,003,410)
Total accumulated depreciation.....	(17,524,468)	(1,044,483)	414,532	(18,154,419)
Total capital assets being depreciated, net.....	\$ 39,572,927	\$ 1,851,803	\$ (133,145)	\$ 41,291,585
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Golf Course Activities:</b>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 1,104,830	\$ 45,455	\$ -	\$ 1,150,285
Buildings.....	1,637,365	-	-	1,637,365
Machinery and equipment.....	242,656	-	(172,377)	70,279
Total capital assets being depreciated.....	2,984,851	45,455	(172,377)	2,857,929
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(307,012)	(38,574)	-	(345,586)
Buildings.....	(429,724)	(38,799)	-	(468,523)
Machinery and equipment.....	(102,587)	(6,536)	64,635	(44,488)
Total accumulated depreciation.....	(839,323)	(83,909)	64,635	(858,597)
Total capital assets being depreciated, net.....	\$ 2,145,528	\$ (38,454)	\$ (107,742)	\$ 1,999,332

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

**Governmental Activities:**

General government.....	\$	445,943
Public safety.....		1,317,778
Education.....		3,778,728
Public works.....		3,205,884
Leisure services.....		638,793
Human services.....		<u>208,544</u>

Total depreciation expense - governmental activities..... \$ 9,595,670

**Business-Type Activities:**

Water and Sewer.....	\$	1,044,483
Golf.....		<u>83,909</u>

Total depreciation expense - business-type activities..... \$ 1,128,392

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2011, are summarized as follows:

<u>Operating Transfers Out:</u>	<u>Operating Transfers In:</u>		
	<u>General Fund</u>	<u>Capital Article Fund</u>	<u>Total</u>
General Fund.....	\$ -	\$ 7,102,000	\$ 7,102,000
Nonmajor Governmental Funds...	2,998,760	-	2,998,760
Water & Sewer Enterprise Fund...	1,643,181	-	1,643,181
Capital Article Fund.....	21,176	-	21,176
Golf Enterprise Fund.....	<u>166,161</u>	<u>-</u>	<u>166,161</u>
	<u>\$ 4,829,278</u>	<u>\$ 7,102,000</u>	<u>\$ 11,931,278</u>

Transfers represent amounts voted to fund the fiscal year 2011 operating budget and indirect costs transfers from the enterprise funds.

**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.

The Town had no short-term financing activity during fiscal year 2011.

**NOTE 8 - LONG-TERM DEBT**

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

In previous fiscal years, certain general obligation bonds were defeased by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, \$28,100,000 of Governmental and \$2,255,000 of Enterprise Fund bonds outstanding from the advance refunding are considered defeased.

Details related to the Town's outstanding indebtedness and debt service requirements follow.

<b>Governmental Funds</b>	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
<i>Inside Debt Limit</i>					
Schools.....	2.59-5.91	\$ 16,812,183	\$ 9,650,000	\$ 2,844,361	\$ 23,617,822
General Government.....	3.22-5.28	32,649,264	-	3,341,039	29,308,225
Sub-total.....		49,461,447	9,650,000	6,185,400	52,926,047
<i>Outside Debt Limit</i>					
Schools.....	5.33 - 5.35	9,190,000	-	920,000	8,270,000
Total Governmental bonds Payable.....		58,651,447	9,650,000	7,105,400	61,196,047
<b>Enterprise Funds</b>					
<i>Inside Debt Limit</i>					
Golf Course Enterprise Fund.....	3.19-3.90	860,000	375,000	155,000	1,080,000
Water Enterprise Fund.....	3.90-6.63	7,740,352	-	1,270,001	6,470,351
Sewer Enterprise Fund.....	3.90-5.28	7,130,700	1,000,000	922,099	7,208,601
Total Enterprise Bonds Payable.....		15,731,052	1,375,000	2,347,100	14,758,952
Total Bonds Payable.....		\$ 74,382,499	\$ 11,025,000	\$ 9,452,500	\$ 75,954,999

Debt service requirements for principal and interest for governmental bonds payable are as follows:

Fiscal Year	Principal	Interest	Total
2012.....	\$ 7,796,238	\$ 2,172,392	\$ 9,968,630
2013.....	6,639,633	1,935,162	8,574,795
2014.....	5,857,088	1,721,819	7,578,907
2015.....	5,267,794	1,544,449	6,812,243
2016.....	4,857,794	1,372,202	6,229,996
2017.....	4,635,000	1,196,398	5,831,398
2018.....	4,192,500	1,034,043	5,226,543
2019.....	3,870,000	889,095	4,759,095
2020.....	3,550,000	743,542	4,293,542
2021.....	2,235,000	607,088	2,842,088
2022.....	2,230,000	521,092	2,751,092
2023.....	1,720,000	430,816	2,150,816
2024.....	1,715,000	360,458	2,075,458
2025.....	1,715,000	288,497	2,003,497
2026.....	1,325,000	215,412	1,540,412
2027.....	1,120,000	158,350	1,278,350
2028.....	1,120,000	108,988	1,228,988
2029.....	450,000	59,062	509,062
2030.....	450,000	39,938	489,938
2031.....	450,000	20,248	470,248
Totals.....	\$ 61,196,047	\$ 15,419,049	\$ 76,615,096

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012..... \$	2,223,761	\$ 516,354	\$ 2,740,115
2013.....	2,155,366	442,806	2,598,172
2014.....	2,107,912	377,747	2,485,659
2015.....	1,787,206	301,150	2,088,356
2016.....	1,777,206	239,178	2,016,384
2017.....	1,515,000	173,219	1,688,219
2018.....	1,162,501	116,894	1,279,395
2019.....	860,000	76,962	936,962
2020.....	730,000	44,700	774,700
2021.....	265,000	16,700	281,700
2022.....	20,000	7,000	27,000
2023.....	20,000	6,300	26,300
2024.....	20,000	5,576	25,576
2025.....	20,000	4,826	24,826
2026.....	20,000	4,026	24,026
2027.....	15,000	3,226	18,226
2028.....	15,000	2,606	17,606
2029.....	15,000	1,968	16,968
2030.....	15,000	1,330	16,330
2031.....	15,000	674	15,674
Totals..... \$	<u>14,758,952</u>	<u>\$ 2,343,242</u>	<u>\$ 17,102,194</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2011, \$1,295,000 of such assistance was received for reimbursement. Approximately \$7,277,000 will be received in future fiscal years. Of this amount, \$1,329,000 represents reimbursement of long-term interest costs, and approximately \$5,948,000 represents reimbursement of approved construction costs. Accordingly, a \$5,948,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In fiscal 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. The Town has been approved for projects at the Runkle and Heath School's under this program. Through the end of fiscal year 2011, the Town has recorded capital grant revenue totaling approximately \$1,097,000 and \$67,000 respectively, from the MSBA which is equal to 40% and 34.5% of approved construction costs incurred to date. The Town received \$876,000 of reimbursements related to the Runkle School and \$67,000 related to the Heath School in fiscal 2011.

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, 2011, the Town had the following authorized and unissued debt:

Purpose	Amount
Runkle School.....	\$ 17,850,000
Waste Water System.....	4,124,065
Carlton Street Foot Bridge.....	1,400,000
Golf - Grounds.....	940,000
Town Hall Garage.....	950,000
Muddy River Project.....	745,000
Heath School.....	8,500,000
Storm Drains.....	500,000
<b>Total.....</b>	<b>\$ 35,009,065</b>

**Changes in Long-term Liabilities**

During the fiscal year ended June 30, 2011, the following changes occurred in long-term liabilities:

**Governmental Funds**

	Balance June 30, 2010	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2011	Current Portion
Long-Term Bonds and Notes.....	\$ 58,651,447	\$ 9,650,000	\$ (7,105,400)	\$ -	\$ 61,196,047	\$ 7,796,238
Other Postemployment Benefits.....	36,158,149	-	-	(2,730,811)	33,427,338	-
Workers' Compensation.....	900,000	-	-	83,000	983,000	245,750
Compensated Absences.....	9,431,373	-	-	161,135	9,592,508	5,905,415
Landfill Closure.....	5,763,000	-	-	(1,093,000)	4,670,000	165,000
<b>Total.....</b>	<b>\$ 110,903,969</b>	<b>\$ 9,650,000</b>	<b>\$ (7,105,400)</b>	<b>\$ (3,579,676)</b>	<b>\$ 109,868,893</b>	<b>\$ 14,112,403</b>

**Business-Type Activities**

	Balance June 30, 2010	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2011	Current Portion
Long-Term Bonds and Notes.....	\$ 15,731,052	\$ 1,375,000	\$ (2,347,100)	\$ -	\$ 14,758,952	\$ 2,223,761
Other Postemployment Benefits.....	1,394,242	-	-	(105,299)	1,288,943	-
Compensated Absences.....	385,433	-	-	9,770	395,203	290,616
<b>Total.....</b>	<b>\$ 17,510,727</b>	<b>\$ 1,375,000</b>	<b>\$ (2,347,100)</b>	<b>\$ (95,529)</b>	<b>\$ 16,443,098</b>	<b>\$ 2,514,377</b>

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, \$983,000 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 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

As of June 30, 2011, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS				
	General	Chapter 90 Highway Fund	Capital Article Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>					
Nonspendable:					
Permanent fund principal.....\$	- \$	- \$	- \$	1,150,127 \$	1,150,127
Restricted for:					
Chapter 90 major fund.....	-	1,634	-	-	1,634
Housing trust funds.....	-	-	-	4,877,823	4,877,823
Parking meter fund.....	-	-	-	3,355,312	3,355,312
Revolving funds.....	-	-	-	2,073,200	2,073,200
Trust funds.....	-	-	-	8,974	8,974
Federal grant funds.....	-	-	-	797,871	797,871
Gift and grant funds.....	-	-	-	3,901,664	3,901,664
Storm damage fund.....	-	-	-	401,401	401,401
Sale of cemetery lots/ graves.....	-	-	-	426,985	426,985
Sale of municipal property.....	-	-	-	3,250,000	3,250,000
Non-expendable permanent funds.....	-	-	-	186,434	186,434
Cemetery perpetual care.....	-	-	-	135,710	135,710
Library permanent fund.....	-	-	-	4,314,260	4,314,260
Other permanent funds.....	-	-	-	497,613	497,613
Committed to:					
Revenue financed capital article major fund.....	-	-	9,845,423	-	9,845,423
Debt financed school capital projects.....	-	-	-	6,440,394	6,440,394
Debt financed town capital projects.....	-	-	-	738,357	738,357
Assigned to:					
General government.....	281,398	-	-	-	281,398
Public safety.....	236,441	-	-	-	236,441
Education.....	247,798	-	-	-	247,798
Public works.....	190,836	-	-	-	190,836
Human services.....	3,320	-	-	-	3,320
Leisure services.....	9,179	-	-	-	9,179
Unassigned.....	22,555,076	-	-	-	22,555,076
<b>TOTAL FUND BALANCES (DEFICIT)..... \$</b>	<b>23,524,048 \$</b>	<b>1,634 \$</b>	<b>9,845,423 \$</b>	<b>32,556,125 \$</b>	<b>65,927,230</b>

Unassigned fund balance of the General Fund includes \$5.4 million of available funds voted to fund the fiscal year 2012 operating budget.

**NOTE 10 – 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. Any incurred but not reported liability related to unemployment and municipal building insurance is deemed immaterial and is therefore not recorded.

(a) *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 \$800,000. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2011, the amount of the liability for workers' compensation claims totaled \$983,000. Changes in the reported liability since July 1, 2009, 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 2011.....	\$ 900,000	\$ 1,228,504	\$ (1,145,504)	\$ 983,000
Fiscal Year 2010.....	1,380,000	676,446	(1,156,446)	900,000

**NOTE 11 - PENSION PLAN**

*Plan Description* - The Town contributes to the Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Brookline Contributory Retirement Board. Substantially all employees are members of the Retirement 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 \$14,623,000 for the fiscal year ended June 30, 2011, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The Retirement 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 Retirement System. The Retirement 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 Retirement System located at Brookline Town Hall, 333 Washington Street, Brookline, Massachusetts 02146.

At December 31, 2010, the Retirement System's membership consists of the following:

Active members.....	1,292
Inactive members.....	1,316
Disabled members.....	190
Retirees and beneficiaries currently receiving benefits.....	<u>659</u>
Total.....	<u><u>3,457</u></u>

*Funding Policy* - Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the Retirement 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 Retirement System for the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$13,822,000, \$12,064,000, and \$11,422,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2010, 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 8.15% investment rate of return and projected salary increases of 5% per year. The actuarial value of the Retirement System's assets was determined using the fair value of the assets. The Retirement System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2011 was 17 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)
1/1/10	\$ 220,576,982	\$ 357,980,915	\$ 137,403,933	61.6%	\$ 58,622,493	234.4%
1/1/08	223,598,975	332,222,063	108,623,088	67.3%	59,789,007	181.7%
1/1/06	190,818,205	299,355,769	108,537,564	63.7%	58,277,406	186.2%
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%

Funding progress is reported based on the biennial actuarial valuation performed by the Retirement 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 Retirement System. The general fund expenditure for fiscal year 2011 totaled approximately \$155,769.

**NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

The Town implemented the provisions of GASB Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and established its “Other Postemployment Benefits Trust Fund”. The Town voted to begin funding its OPEB liabilities through the use of this fund.

*Plan Description* - The Town of Brookline administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy* - Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. For 2011 the Town contributes 78% of the cost of current-year premiums for healthcare for eligible retired plan members and their spouses and 75% of current-year premiums for life insurance for eligible plan members. For fiscal year 2011, the Town contributed \$18.4 million to the plan.

*Annual OPEB Cost and Net OPEB Obligation* - The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for fiscal year 2011:

Normal cost.....	\$	4,121,359
Amortization of unfunded actuarial accrued liability.....		10,823,940
Interest on existing net OPEB obligation.....		2,189,307
Adjustments to annual required contribution.....		<u>(1,572,272)</u>
Annual OPEB cost (expense).....		15,562,334
Contributions made.....		<u>(18,398,444)</u>
Increase/Decrease in net OPEB obligation.....		(2,836,110)
Net OPEB obligation - beginning of year.....		<u>37,552,391</u>
Net OPEB obligation - end of year.....	\$	<u><u>34,716,281</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 is as follows:

Fiscal year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	\$ 15,562,334	71.0%	\$ 34,716,281
6/30/10	21,792,668	49.1%	37,552,391
6/30/09	20,503,147	46.5%	26,282,132

*Funded Status and Funding Progress* - As of June 30, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$215 million, of which the Town has funded approximately \$7.4 as of June 30, 2010. The covered payroll (annual payroll of active employees covered by the plan) was \$124.6 million, and the ratio of the UAAL to the covered payroll was 166.83 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements,

presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.25 percent investment rate of return, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after six years. Both rates included a 4.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 29 years.

#### **NOTE 13 - 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 \$4,670,000 as the estimate of the rear landfill closure liability at June 30, 2011, in the government-wide financial statements governmental activities. This amount is based on estimates of what it would cost to perform all future closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

#### **NOTE 14 – 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, 2011 the outstanding loan balance was \$275,000.

**NOTE 15 - COMMITMENTS**

The Town has entered into a long-term contract with Whitney Trucking Inc. to load, haul and dispose of municipal solid waste. 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 entered into an agreement with Waste Management of Massachusetts, Inc. to provide single stream recycling for the Town. The fiscal year 2011 cost to the Town was approximately \$590,000 and the expected cost for fiscal year 2012 is \$856,000. This contract expires on June 30, 2014.

The School Department has entered into an agreement with Eastern Bus Company, Inc. to provide for regular transportation. The contract bears an annual cost of approximately \$684,000 for the first two years and approximately \$537,000 for the third year. The regular school transportation contract expires on August 31, 2013.

The School Department has also entered into an agreement with Y.C.N. Transportation, Inc. to provide transportation for its special needs students. The contract bears an annual cost of approximately \$395,000. The special needs student transportation contracts expire on August 31, 2013.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$35,000,000 for renovations to the Runkle School, the Heath School, various Sewer Improvements, renovations to the Carlton Street Foot Bridge and various other projects.

**NOTE 16 - CONTINGENCIES**

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2006, 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, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

**NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2011, the following GASB pronouncements were implemented:

- GASB Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented in fiscal year 2011. Financial statements changes include new fund balance designations and the reclassification of stabilization funds from the special revenue fund to the general fund. Notes to the basic financial statements were changed to provide additional disclosure on the new designations of fund balance.
- GASB Statement #59, *Financial Instruments Omnibus*, was implemented in fiscal year 2011 and did not impact the financial statements.

## Future implementation of GASB pronouncements:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. Management expects that the implementation of this pronouncement will have an impact on the basic financial statements.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, which is required to be implemented in fiscal year 2012. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements

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***Required Supplementary Information***

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 155,892,381	\$ 155,892,381	\$ 156,083,117
Motor vehicle and other excise taxes.....	-	4,600,000	4,600,000	4,600,000
Hotel/motel tax.....	-	1,550,000	1,550,000	1,550,000
Charges for services.....	-	4,650,245	4,650,245	4,650,245
Penalties and interest on taxes.....	-	350,000	350,000	350,000
Payments in lieu of taxes.....	-	880,000	880,000	880,000
Licenses and permits.....	-	2,553,475	2,553,475	2,553,475
Fines and forfeitures.....	-	4,306,700	4,306,700	4,306,700
Intergovernmental.....	-	13,694,506	13,694,506	13,694,506
Departmental and other.....	-	603,055	603,055	603,055
Investment income.....	-	250,000	250,000	250,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>189,330,362</b>	<b>189,330,362</b>	<b>189,521,098</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	297,928	10,625,988	10,923,916	9,390,125
Public safety.....	409,556	33,810,857	34,220,413	34,403,660
Education.....	366,218	71,947,765	72,313,983	72,409,351
Public works.....	324,266	12,772,572	13,096,838	14,763,795
Human services.....	41,978	2,210,741	2,252,719	2,324,942
Leisure services.....	9,115	4,407,759	4,416,874	4,508,239
Pension benefits.....	-	13,999,954	13,999,954	13,999,954
Employee benefits.....	246	27,515,947	27,516,193	26,529,693
State and county charges.....	-	5,556,335	5,556,335	5,556,335
Debt service:				
Principal.....	-	7,105,400	7,105,400	7,105,400
Interest.....	-	2,203,224	2,203,224	2,203,224
<b>TOTAL EXPENDITURES.....</b>	<b>1,449,307</b>	<b>192,156,542</b>	<b>193,605,849</b>	<b>193,194,718</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(1,449,307)</b>	<b>(2,826,180)</b>	<b>(4,275,487)</b>	<b>(3,673,620)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Premium from issuance of bonds, net of expenditures.....	-	-	-	-
Transfers in.....	-	4,808,101	4,808,101	4,808,102
Transfers out.....	-	(6,572,000)	(6,572,000)	(7,173,868)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(1,763,899)</b>	<b>(1,763,899)</b>	<b>(2,365,766)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(1,449,307)</b>	<b>(4,590,079)</b>	<b>(6,039,386)</b>	<b>(6,039,386)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>19,472,365</b>	<b>19,472,365</b>	<b>19,472,365</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (1,449,307)</b>	<b>\$ 14,882,286</b>	<b>\$ 13,432,979</b>	<b>\$ 13,432,979</b>

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 155,898,463	\$ -	\$ (184,654)
5,178,153	-	578,153
1,244,887	-	(305,113)
4,776,101	-	125,856
498,405	-	148,405
908,270	-	28,270
3,586,851	-	1,033,376
4,274,494	-	(32,206)
14,225,080	-	530,574
1,238,807	-	635,752
400,352	-	150,352
<u>192,229,863</u>	<u>-</u>	<u>2,708,765</u>
8,327,032	281,398	781,695
33,804,706	236,441	362,513
72,095,304	247,798	66,249
14,399,923	190,836	173,036
2,294,869	3,320	26,753
4,444,419	9,179	54,641
13,977,375	-	22,579
26,087,430	-	442,263
5,576,032	-	(19,697)
7,105,400	-	-
2,109,205	-	94,019
<u>190,221,695</u>	<u>968,972</u>	<u>2,004,051</u>
<u>2,008,168</u>	<u>(968,972)</u>	<u>4,712,816</u>
14,507	-	14,507
4,829,278	-	21,176
(7,173,868)	-	-
<u>(2,330,083)</u>	<u>-</u>	<u>35,683</u>
(321,915)	(968,972)	4,748,499
<u>19,472,365</u>	<u>-</u>	<u>-</u>
\$ <u>19,150,450</u>	\$ <u>(968,972)</u>	\$ <u>4,748,499</u>

**Other Postemployment Benefit Plan  
Schedule of Funding Progress and Employer Contributions**

June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2010	\$ 7,355,050	\$ 215,241,642	\$ 207,886,602	3%	\$ 124,608,849	166.83
6/30/2008	-	323,225,372	323,225,372	0%	120,097,413	269.14
6/30/2006	-	325,834,939	325,834,939	0%	114,641,067	284.22

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2011	\$ 14,945,299	\$ 11,043,394	74%
2010	21,473,717	10,522,409	49%

**Other Postemployment Benefit Plan  
Actuarial Methods and Assumptions**

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Actuarial Methods:

Valuation date.....	June 30, 2010
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.0%, open
Remaining amortization period.....	29 years as of June 30, 2011
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	7.25%, pay-as-you-go scenario
Inflation.....	4.0%
Medical/drug cost trend rate.....	10.0% graded to 5.0% over 6 years and by 0.50% for 1 year to an ultimate level of 5.0% per year

Plan Membership:

Current retirees, beneficiaries, and dependents.....	1,560
Current active members.....	<u>1,382</u>
Total.....	<u><u>2,942</u></u>

See notes to required supplementary information.

**NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****A. Budgetary Information**

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2011 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$200,178,000 in appropriations and other amounts to be raised. During fiscal year 2011, Town Meeting approved appropriation increases totaling \$191,000.

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, 2011, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ (321,915)
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	105,449
<u>Basis of accounting differences:</u>	
Recognition of expenditures on modified accrual basis.....	(11,044)
Net change in recording 60-day receipts accrual.....	17,945
Recognition of revenues on modified accrual basis.....	171,405
Tax refunds payable.....	241,000
Recognition of revenue for on-behalf payments.....	(14,623,000)
Recognition of expenditures for on-behalf payments.....	<u>14,623,000</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	<u>\$ 202,840</u>

**C. Appropriation Deficits**

During fiscal year 2011, expenditures exceeded budgeted appropriations for state & county charges. This deficit will be funded through tax levy in fiscal year 2012.

**NOTE B – OTHER POSTRETIREMENT BENEFITS**

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

The Town currently finances its other postemployment benefits (OPEB) on a hybrid of pay-as-you-go and setting aside monies in an OPEB Trust. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 3%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

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

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