

OFFICIAL STATEMENT DATED MAY 21, 2013

Rating: See "Rating" herein.  
Moody's Investors Service, Inc.: Aaa

New Issue

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

TOWN OF BROOKLINE, MASSACHUSETTS  
\$12,375,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2013 BONDS

DATED  
Date of Delivery

DUE  
March 15  
(as shown below)

The Bonds are issuable only in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in denominations of \$5,000 or any integral multiple thereof. (See "Book-Entry Transfer System" herein.)

Principal of the Bonds will be payable March 15 of the years in which the Bonds mature. Interest on the Bonds will be payable March 15 and September 15, commencing September 15, 2013. Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

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

An opinion of Bond Counsel will be delivered with the Bonds to the effect that the Bonds are valid general obligations of the Town of Brookline, Massachusetts, and that the principal of and interest on the Bonds are payable from taxes that may be levied upon all taxable property in the Town subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

MATURITIES, AMOUNTS, RATES, PRICES OR YIELDS AND CUSIPS

Due March 15	Principal Amount	Interest Rate	Yield	Cusip 113745	Due March 15	Principal Amount	Interest Rate	Yield	Cusip 113745
2014	\$ 635,000	3.00 %	0.20 %	S87	2021	\$ 1,285,000	4.00 %	1.57 %	T78
2015	590,000	2.00	0.30	S95	2022	1,145,000	3.00	1.76	T86
2016	985,000	3.00	0.45	T29	2023	1,135,000	4.00	1.91	T94
2017	1,335,000	3.00	0.62	T37	2024	580,000	2.00	2.15	U27
2018	1,330,000	3.00	0.83	T45	2025	575,000	2.25	2.30	U35
2019	1,290,000	4.00	1.10	T52	2026	200,000	2.50	2.50	U43
2020	1,290,000	3.00	1.35	T60					

The Bonds are offered subject to the final approving opinion of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, as aforesaid, and to certain other conditions referred to herein and in the Notice of Sale. First Southwest Company, Boston, Massachusetts has acted as Financial Advisor to the Town of Brookline, Massachusetts, with respect to the Bonds. The Bonds in definitive form will be delivered to DTC, or its custodial agent, on or about May 30, 2013, against payment to the Town in federal funds.

FIDELITY CAPITAL MARKETS

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The information set forth herein has been obtained from the Town and from other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds described herein shall, under any circumstances, create any implication that there has been no change in the affairs of the Town of Brookline, since the date hereof.

## SUMMARY STATEMENT

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

Date of Sale: Tuesday, May 21, 2013, 11:00 A.M. (Eastern Time).

Location of Sale: First Southwest Company, 54 Canal Street, 3rd Floor, Boston, Massachusetts 02114.

Issuer: Town of Brookline, Massachusetts.

Issue: \$12,375,000 General Obligation Municipal Purpose Loan of 2013 Bonds, see "THE BONDS Book-Entry Transfer System" herein.

Official Statement Dated: May 21, 2013.

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

Principal Due: Serially March 15, 2014 through March 15, 2026 as detailed herein.

Purpose and Authority: Bond proceeds will be used to refund certain outstanding bonds of the Town dated May 15, 2005 and April 1, 2006 and to finance and refinance various municipal capital projects, as detailed herein. See "Authorization of the Bonds and Use of Proceeds."

Redemption: The Bonds are subject to redemption prior to their stated maturity dates as described herein.

Security: The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

Credit Rating: Moody's Investors Service, Inc. has assigned a rating of Aaa to the Bonds.

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

Basis of Award: Lowest True Interest Cost (TIC), as of the dated date. **No bid of less than par and no bid with a premium greater than \$1,700,000 will be accepted.**

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

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

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

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

Verification Agent: Grant Thornton LLP, Minneapolis, Minnesota.

Legal Opinion: Edwards Wildman Palmer LLP, Boston, Massachusetts.

Financial Advisor: First Southwest Company, Boston, Massachusetts.

Delivery and Payment: It is expected that delivery of the Bonds in book-entry only form will be made to The Depository Trust Company, or to its custodial agent, on or about May 30, 2013, against payment in Federal Funds.

Issuer Official: Questions concerning the Official Statement should be addressed to: Mr. Stephen E. Cirillo, Finance Director/Treasurer, Town of Brookline, Massachusetts telephone (617) 730-2317 or Peter Frazier, Senior Vice President, First Southwest Company, Boston, Massachusetts Telephone (617) 619-4409.

**NOTICE OF SALE**  
**TOWN OF BROOKLINE, MASSACHUSETTS**  
**\$12,330,000\* GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2013 BONDS**

The Town of Brookline, Massachusetts (the "Town") will receive sealed and electronic (as described herein) proposals until 11:00 A.M., Eastern Time, Tuesday, May 21, 2013, for the purchase of the following described General Obligation Municipal Purpose Loan of 2013 Bonds of the Town (the "Bonds"):

\$12,330,000\* General Obligation Municipal Purpose Loan of 2013 Bonds payable March 15 of the years and in the amounts as follows:

Due March 15	Principal Amount*	Due March 15	Principal Amount*
2014	\$ 635,000	2021	\$ 1,275,000
2015	600,000	2022	1,135,000
2016	990,000	2023	1,120,000
2017	1,335,000	2024	565,000 **
2018	1,330,000	2025	565,000 **
2019	1,300,000	2026	195,000 **
2020	1,285,000		

\*Preliminary, subject to change.

\*\* Callable maturities. May be combined into one Bond.

The Bonds will be dated their date of delivery. Principal of the Bonds will be payable on March 15 of the years in which the Bonds mature. Interest will be payable on March 15 and September 15, commencing September 15, 2013.

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

The original Bond certificates to be immobilized at DTC will be prepared under the supervision of First Southwest Company and their legality will be approved by Edwards Wildman Palmer LLP, Boston, Massachusetts, whose opinion will be furnished to the purchaser without charge.

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

The Bonds maturing in the years 2014 through 2023 will not be subject to redemption prior to maturity. The Bonds maturing on and after March 15, 2024 shall be subject to redemption prior to maturity, at the option of the Town, on or after March 15, 2023, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Bonds to be redeemed.

For the Bonds maturing on and after March 15, 2024, bidders may specify that all of the principal amount of such Bonds in any two or more consecutive years may, in lieu of maturing in each such year, be combined to comprise one Term Bond, and shall be subject to mandatory redemption or mature at par, as described above, in each of the years and in the principal amounts specified in the foregoing maturity schedule. Each mandatory redemption shall be allocated to the payment of the Term Bond maturing in the nearest subsequent year. Bidders may specify no more than one Term Bond.

A Term Bond, if at all, shall be subject to mandatory redemption on March 15 of the year or years immediately prior to the stated maturity of such Term Bond (the particular Bonds of such maturity to be redeemed to be selected by lot), as indicated in the foregoing maturity schedule at the principal amount thereof plus accrued interest to the redemption date, without premium.

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in a multiple of 1/20 or 1/8 of one percent, but shall not state (a) more than one interest rate for any Bonds having a like maturity or **(b) any interest rate which exceeds the interest rate stated for any other Bonds by more than 2 percent. No bid of less than par and no bid with a premium greater than \$1,700,000 will be accepted.**

### **Bidding Parameters**

As between proposals which comply with this Notice of Sale, the award will be to the bidder who offers to purchase all the Bonds at the lowest net effective interest rate to the Town. Such interest rate shall be determined on a true interest cost (TIC) basis, which shall mean that rate which, as of the delivery date, discounts semiannually all future payments on account of principal and interest to the price bid. In the event there is more than one proposal specifying the lowest such rate, the Bonds will be awarded to the bidder whose proposal is selected by the Town Treasurer by lot among all such proposals.

**The Town reserves the right to change the aggregate principal amount of the Bonds and the maturity schedule after the determination of the winning bid by increasing or decreasing the aggregate principal amount and the principal amount of each maturity by such amounts as may be necessary to (a) produce sufficient funds to effect the refunding for which a portion of the Bonds are being issued, in part, after taking into account premium received by the Town and the actual investment yield at which the proceeds of this portion of the Bonds are to be invested, and (b) to account for any changes in the bonds to be refunded with a portion of proceeds of the Bonds based on the actual debt service savings to be realized by the Town. In such event, the final aggregate principal amount of the Bonds will be increased or decreased by not more than fifteen percent (15%) of the aggregate principal amount of the Bonds stated in this Notice of Sale. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE ANNUAL PRINCIPAL AMOUNTS WITHIN THIS LIMIT. The dollar amount bid for the Bonds by the winning bidder will be adjusted, if applicable, to reflect changes in the dollar amount of the amortization schedule. Any price that is adjusted will reflect changes in the dollar amount of the underwriter's discount and original issue premium, but will not change the per bond underwriter's discount (net of insurance premium, if any) provided in such bid. Nor will it change the interest rate specified for each maturity. Any such adjustments will be communicated to the winning bidder by 5 P.M. on the day of the sale.**

Bids must be submitted either:

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

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

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

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

commitment to be issued shall not in any way relieve the purchaser of its contractual obligations arising from the acceptance of its proposal for the purchase of the Bonds. Should the bidder purchase municipal bond insurance, all expenses associated with such policy or commitment will be borne by the bidder, except for the fee paid to Moody's Investors Service for a rating on the Bonds. Any such fee paid to Moody's Investors Service would be borne by the Town.

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that it shall be furnished, without cost, with (a) the approving opinion of the firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, substantially in the form appearing as Appendix B of the Preliminary Official Statement dated May 14, 2013, (b) a certificate in the form satisfactory to Bond Counsel dated as of the date of delivery of the Bonds and receipt of payment therefor to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened which affects the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, (c) a certificate of the Town Treasurer to the effect that, to the best of his knowledge and belief, as of the date of sale the Preliminary Official Statement did not, and as of the date of the delivery of the Bonds, the Final Official Statement does not, contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, and (d) a Continuing Disclosure Certificate in the form described in the Preliminary Official Statement.

In order to assist bidders in complying with Rule 15c2-12 (b)(5) promulgated by the Securities and Exchange Commission, the Town will undertake to provide annual reports and notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement dated May 14, 2013.

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

Additional information concerning the Town of Brookline and the Bonds is contained in the Preliminary Official Statement dated May 14, 2013, to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. Said Preliminary Official Statement is deemed final by the Town except for the omission of the reoffering price(s), interest rate(s), delivery date, the identity of the underwriter(s), and any other pertinent terms of the Bonds depending on such matters, but is subject to change without notice to completion or amendment in a Final Official Statement. Copies of the Preliminary Official Statement may be obtained from First Southwest Company, 54 Canal Street, Boston, Massachusetts 02114 (Telephone: 617-619-4400). Within seven (7) business days following the award of the Bonds in accordance herewith, 10 copies of the Final Official Statement will be available from the First Southwest Company to the successful bidder for use in reoffering the Bonds. Upon request, additional copies will be provided at the expense of the requester.

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the Town a certificate acceptable to Bond Counsel generally to the effect that (i) as of May 21, 2013 (the "Sale Date"), the purchaser had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

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

The Bonds in definitive form will be delivered to The Depository Trust Company or its custodial agent on or about May 30, 2013 for settlement in federal funds.

May 14, 2013

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TOWN OF BROOKLINE, MASSACHUSETTS  
/s/ Stephen E. Cirillo, Finance Director/Treasurer

**OFFICIAL STATEMENT  
TOWN OF BROOKLINE, MASSACHUSETTS  
\$12,375,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2013 BONDS**

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Brookline, Massachusetts (the "Town") in connection with the sale of \$12,375,000 stated principal amount of its General Obligation Municipal Purpose Loan of 2013 Bonds (the "Bonds"). The information contained herein has been furnished by the Town, except information attributed to another governmental agency or official as the source.

**THE BONDS**

**Description of the Bonds**

The Bonds will be dated as of their delivery date and will bear interest payable semiannually on March 15 and September 15 of each year until maturity, commencing September 15, 2013, each at the rate or rates of interest determined upon their sale in accordance with the Notice of Sale of the Town dated May 14, 2013. The Bonds shall mature on March 15 of the years and in the principal amounts as set forth on the cover page of this Preliminary Official Statement.

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

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

**Redemption Provisions**

The Bonds are subject to redemption as described below.

**Optional Redemption**

The Bonds maturing in the years 2014 through 2023 will not be subject to redemption prior to maturity. The Bonds maturing on and after March 15, 2024 shall be subject to redemption prior to maturity, at the option of the Town, on or after March 15, 2023, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Bonds to be redeemed, plus accrued interest to the date set for redemption.

**Notice of Redemption**

So long as DTC is the registered owner of the Bonds, notice of any redemption of Bonds prior to their maturities, specifying the Bonds (or the portion thereof) to be redeemed shall be mailed by registered mail to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants, Indirect Participants, or of a nominee of a Beneficial Owner (having received notice from DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption.

## Record Date

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

## Book-Entry Transfer System

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

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

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

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with it unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent as soon as possible after the record date.

The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

**Authorization of the Bonds and Use of Proceeds**

The following sets forth the principal amounts, purposes, statutory authorizations and dates of Town approval for the current offering of Bonds:

<u>This Issue</u>	<u>Purpose</u>	<u>Amount Originally Authorized</u>	<u>Date of Authorization</u>	<u>Law Cite</u>	<u>Article</u>
\$ 155,000	Carlton Street Foot Bridge	\$ 1,400,000	11/17/2009	Ch. 44, s.7(4)	5
2,150,000	Waldestein & Warren Parks	2,150,000	5/22/2012	Ch. 44, s.7(25)	8, item #67
1,500,000	Runkle School	29,100,000	11/17/2009	Ch. 70B	4
1,300,000	Unified Arts Building	1,300,000	5/22/2012	Ch. 44, s.7(3A)	8
500,000	Storm Drains	500,000	5/24/2011	Ch. 44, s.7(1)	9
6,770,000	Refunding		4/23/2013	Ch. 44, 21A	
<u>\$ 12,375,000</u>	Total				

A portion of the bond proceeds will be used to refund a portion of the Town's \$10,490,000 General Obligation Bonds dated May 15, 2005, maturing March 15 of the years 2016 through 2025, inclusive (the "2005 Bonds") and to refund a portion of the Town's \$11,068,000 General Obligation Bonds dated April 1, 2006, maturing March 15 of the years 2017 through 2026, inclusive (the "2006 Bonds" and together with the 2005 Bonds, the "Refunded Bonds"), and to pay costs of issuing a portion of the Bonds.

## Plan of Refunding

Upon delivery of the Bonds, the Town will enter into a Refunding Escrow Agreement (the "Refunding Escrow Agreement") with U.S. Bank National Association, as Escrow Agent (the "Escrow Agent"), to provide for the refunding of the Refunded Bonds. Upon receipt of the portion of the proceeds of the Bonds and revenue funds of the Town necessary to refund the Refunded Bonds, the Escrow Agent will deposit in the Refunding Escrow Fund established under the Refunding Escrow Agreement an amount that will be held in cash and an amount that will be invested in direct obligations of the United States of America or obligations unconditionally guaranteed by the United States of America ("Government Obligations") maturing in amounts and bearing interest at rates sufficient without reinvestment, together with the cash on deposit in the Refunding Escrow Fund, to pay when due, interest on, and upon redemption, the outstanding principal of and redemption premium (if any) on, the Refunded Bonds. The Refunding Escrow Fund, including the interest earnings on the Government Obligations, will be pledged for the benefit of the holders of the Refunded Bonds.

## Verification of Mathematical Computations

The accuracy of the mathematical computations relating to (i) the adequacy of the maturing principal amounts of the Government Obligations together with the interest income thereon and uninvested funds, if any, to provide for the payment of the Refunded Bonds and (ii) the yield on the Bonds and the Government Obligations for purposes of determining compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), will be verified by Grant Thornton LLP, independent certified public accountants. Such verification will be based upon information and assumptions supplied by First Southwest Company on behalf of the Town. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by First Southwest Company and has not evaluated or examined the assumptions or information used in the computations.

## Principal Maturities by Purpose

Year	Carlton Street Foot Bridge	Waldstein & Warren Parks	Runkle School	Unified Arts Building	Storm Drains	Refunding	Total
2014	\$ 35,000	\$ 215,000	\$ 150,000	\$ 130,000	\$ 50,000	\$ 55,000	\$ 635,000
2015	30,000	215,000	150,000	130,000	50,000	15,000	590,000
2016	30,000	215,000	150,000	130,000	50,000	410,000	985,000
2017	30,000	215,000	150,000	130,000	50,000	760,000	1,335,000
2018	30,000	215,000	150,000	130,000	50,000	755,000	1,330,000
2019	-	215,000	150,000	130,000	50,000	745,000	1,290,000
2020	-	215,000	150,000	130,000	50,000	745,000	1,290,000
2021	-	215,000	150,000	130,000	50,000	740,000	1,285,000
2022	-	215,000	150,000	130,000	50,000	600,000	1,145,000
2023	-	215,000	150,000	130,000	50,000	590,000	1,135,000
2024	-	-	-	-	-	580,000	580,000
2025	-	-	-	-	-	575,000	575,000
2026	-	-	-	-	-	200,000	200,000
Total	<u>\$ 155,000</u>	<u>\$ 2,150,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,300,000</u>	<u>\$ 500,000</u>	<u>\$ 6,770,000</u>	<u>\$ 12,375,000</u>

## Sources and Uses of Bond Proceeds

Proceeds of the Bonds will be applied as follows:

Sources:	
Par Amount of the Bonds	\$ 12,375,000.00
Premium	1,245,569.30
Total Sources	<u>\$ 13,620,569.30</u>
Uses:	
Deposit to Refunding Escrow Fund	\$ 7,328,742.89
Underwriter's Discount	86,805.55
Costs of Issuance	105,578.25
Project Construction Fund	5,605,000.00
Original Issue Premium on New Money Bonds	494,442.61
Total Uses	<u>\$ 13,620,569.30</u>

## Tax Exemption

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

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

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

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

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

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

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

to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

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

## **Security and Remedies**

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

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year "all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments." Specific provision is also made for including in the next tax levy payment of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid if the aid is no longer forthcoming.

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

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

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

Restricted Funds Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, and community preservation and affordable housing purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any

surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

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

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

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

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

## **Opinion of Bond Counsel**

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

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

## **Rating**

Moody's Investor Service has assigned a rating of Aaa to the Bonds. The rating only reflects the rating agency's views and will be subject to revision or withdrawal, which could affect the market price of the Bonds.

## **Financial Advisory Services of First Southwest Company**

First Southwest Company, Boston, Massachusetts serves as financial advisor to the Town of Brookline, Massachusetts.

## **Continuing Disclosure**

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

**The Town has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of significant events in accordance with the Rule.**

# THE TOWN OF BROOKLINE, MASSACHUSETTS

## Description

The Town of Brookline was founded in 1630 as a part of Boston and was incorporated as a town in 1705. It is located in Norfolk County and borders 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.

## Local Government

The Town operates under a Board of Selectmen/Representative Town Meeting form of government. Local legislative decisions are made by a representative town meeting consisting of 251 members and implemented by a five-member Board of Selectmen. Day-to-day matters are handled by a Town Administrator who is appointed by the Board of Selectmen. The Town Administrator is the chief operating officer and department heads are generally under his or her supervision.

School affairs are administered by a school committee of nine persons, elected for staggered three-year terms on an at-large basis.

Local taxes are assessed by a board of assessors, appointed for staggered three-year terms.

### Principal Executive Officers

<u>Office</u>	<u>Name</u>	<u>Term and Manner of Selection</u>	<u>Term Expires</u>
Selectmen	Betsy DeWitt, Chairperson	Elected – 3 years	2015
	Kenneth Goldstein	Elected - 3 years	2015
	Richard Benka	Elected - 3 years	2014
	Nancy Daly	Elected - 3 years	2014
	Neil Wishnisky	Elected – 3 years	2016
Town Administrator	Melvin A. Kleckner	Appointed - 3 years	2013
Finance Director/Collector/Treasurer	Stephen E. Cirillo	Appointed - 1 year	2013
Town Clerk	Patrick J. Ward	Elected - 3 years	2015
Comptroller	Michael F. DiPietro	Appointed - 1 year	2013
Town Counsel	Jennifer Gilbert	Appointed - 3 years	2015

## Services

*Public Safety* - The Town provides police and fire protection. The Town also provides animal control services and building inspection.

*Public Works* - Through its public works department the Town maintains highways, provides snow removal, maintains parks and cemeteries, and provides water and sewer services.

*Library* - The Town Library is funded and operated by the Town, and houses approximately 367,000 volumes.

*Senior Citizens* - The Town provides a Council on Aging that administers services such as a low-cost lunch program, bus service and activities for elderly citizens.

*Recreation* - The Town provides numerous recreational facilities and activities, including a municipal golf course, a swimming pool, a summer day camp, tennis courts, parks and playgrounds.

*Education* - The Town school system includes eight elementary schools (grades K-8) and one senior high school, with a combined capacity of 7,000. Vocational programs are provided by the Unified Arts Department of the Brookline High School.

## Student Enrollments

	Average Annual Enrollment					Projected
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Pre-Kindergarten to 6	3,279	3,492	3,631	3,778	3,964	4,007
Grades 7-8	819	798	838	874	863	954
Grades 9-12	1,808	1,782	1,748	1,726	1,777	1,747
Ungraded	-	-	-	-	-	-
<b>Total</b>	<b>5,906</b>	<b>6,072</b>	<b>6,217</b>	<b>6,378</b>	<b>6,604</b>	<b>6,708</b>

Source: Massachusetts Department of Education - As of December, each year.

## Population

	Brookline		Norfolk County		Massachusetts	
	Total	% Change From Prior Census	Total	% Change From Prior Census	Total	% Change From Prior Census
2010	58,732	2.8%	670,850	3.2%	6,547,629	3.1%
2000	57,107	4.4	650,308	5.6	6,349,097	5.5
1990	54,718	(0.6)	616,087	1.0	6,016,425	2.1
1980	55,062	---	606,587	---	5,737,037	---

Source: U.S. Department of Commerce, Bureau of the Census for 2010, 2000, 1990 and 1980.

## Age

	Brookline	Norfolk County	Massachusetts
Percentage of the Population:			
Under 5 Years	5.2%	5.6%	5.6%
5 Years to 19 Years	16.2	19.5	19.4
20 Years to 64 Years	65.4	60.4	61.3
Over 65 Years	13.2	14.4	13.7
Median Age	35.7	40.4	38.9

Source: U.S. Department of Commerce, Bureau of the Census (2011 5 year estimates).

## Labor Force, Employment and Unemployment Rate

According to the Massachusetts Department of Employment and Training, in March 2013, the Town had a total labor force of 34,428, of whom 33,432 were employed and 996 or 2.9% were unemployed, as compared with 6.8% unemployed for the Commonwealth.

The following table sets forth the Town's average labor force and unemployment rates for calendar years 2007 through 2012 versus unemployment rates for the County and the Commonwealth for the same period:

Calendar Year	Town of Brookline			Unemployment Rate	
	Labor Force	Number Employed	Unemployment Rate	Norfolk County	Massachusetts
2012	34,651	33,462	3.4%	5.6%	6.7%
2011	34,210	32,903	3.8	6.6	8.3
2010	32,740	31,142	4.9	7.6	8.5
2009	32,370	30,635	5.4	7.3	10.5
2008	32,549	31,549	3.1	6.8	5.3
2007	32,841	32,002	2.6	4.5	5.5

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

## Employment by Industry

Industry	Calendar Year Average				
	2007	2008	2009	2010	2011
Construction	406	405	369	386	394
Manufacturing	163	161	152	182	182
Trade, Transportation and Utilities	1,678	1,696	1,608	1,570	1,566
Information	338	488	506	447	490
Financial Activities	968	955	963	832	785
Professional and Business Services	2,114	2,162	2,120	1,444	1,544
Education and Health Services	4,845	5,057	5,094	6,595	6,841
Leisure and Hospitality	2,344	2,306	2,234	2,360	2,481
Other Services	790	784	789	827	862
<b>Total Employment</b>	<b>13,646</b>	<b>14,014</b>	<b>13,835</b>	<b>14,643</b>	<b>15,145</b>
Number of Establishments	1,582	1,599	1,635	1,696	1,728
Average Weekly Wages	\$ 807	\$ 852	\$ 879	\$ 1,212	\$ 1,227
<b>Total Wages</b>	<b>\$ 598,971,993</b>	<b>\$ 650,227,638</b>	<b>\$ 663,348,378</b>	<b>\$ 968,462,751</b>	<b>\$ 1,015,778,464</b>

Source: Massachusetts Department of Education and Training. Data based upon place of employment, not place of residence. Due to the reclassification the U.S. Department of Labor now uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

## Major Employers - 2012

Name	Nature of Business	Number of Employees
Dana Farber	Nonprofit Office	1,275
Coolidge House	Nursing Home	235
Bournewood	Hospital	250
Newbury College	College	190
Pine Manor College	College	169
Brookline Health Care Center	Nursing Home	172
Arbour HRI	Hospital	180
Dexter/Southfield (Clay) School	Private school	160
Trader Joe's	Supermarket	160
Park School	Private School	154

Source: Massachusetts Department of Revenue.

## Personal Income

	Brookline		Norfolk County		Massachusetts	
	Amount	% Change From Prior Census	Amount	% Change From Prior Census	Amount	% Change From Prior Census
Per Capita:						
2010	\$63,028	42.2%	\$42,371	30.4%	\$22,966	30.9%
2000	44,327	53.0	32,484	54.0	25,952	51.0
1989	29,044	152.5	21,091	138.9	17,224	131.0
1987 (Est.)	22,610	13.2	17,405	14.7	14,389	15.0
1985 (Est.)	19,976	20.9	15,169	19.8	12,510	19.0
Median Family Income (2010)	\$139,787		\$101,870		\$81,165	

Source: U.S. Department of Commerce, Bureau of the Census.

## Building Permits (1)

<u>Calendar Year</u>	<u>Residential</u>	<u>Non-Residential</u>	<u>Total</u>	<u>Total Taxable Value</u>
2012	12	0	12	\$ 6,953,000
2011	28	0	28	21,657,937
2010	5	1	6	2,713,000
2009	12	1	13	12,407,500
2008	18	0	18	26,628,000

Source: Town of Brookline Building Commissioner  
(1) New buildings only.

## Housing

	<u>Brookline</u>	<u>Norfolk County</u>	<u>Massachusetts</u>
Median Value of Occupied Non-Condominium Housing Units	\$681,200	\$398,100	\$343,500
% Year-Round Housing Units Built 1939 or earlier	55.4%	29.5%	35.4%
% Year-Round Housing Units Built since 2000	2.7%	6.7%	6.7%

Source: U.S. Department of Commerce, Bureau of the Census (2011 5 year estimates).

## Economic/Industrial Development

In the spring of 1995, the Town hired its first Economic Development Officer and appointed its first Economic Development Advisory Board ("EDAB"). The EDAB is comprised of 12 citizens of the Town who are established professionals in development and related fields. The EDAB defines its mission as follows:

- to encourage appropriate economic growth;
- to foster the prosperity of businesses in the Town's commercial areas;
- to enhance the Town's built environment by promoting design excellence in new development; and
- to preserve and enhance the character of its neighborhoods.

The EDAB and the Economic Development Office have divided their work into three major areas:

1. Facilitate appropriate development by pro-actively marketing available development sites, guiding developers through the regulatory process, and recommending ways to simplify and expedite project approvals while continuing to garner valuable community input.
2. Strengthen the Town's commercial areas by sponsoring and supporting public celebrations to showcase Brookline's shopping areas, working with local merchants' associations and the Chamber of Commerce, and promoting tourism.
3. Create a strategic development plan by collecting and disseminating information on available sites, understanding regional demand for new development, and eliminating obstacles to development in key areas of Town.

The Town's economic development efforts have yielded significant accomplishments within the last several years, including:

Advancing new zoning for the 2 Brookline Place parcel for redevelopment as an office/biomedical facility with community benefits and estimated additional annual tax revenue of \$1 million per year.

The sale, clean-up and redevelopment of the former Town garage and vehicle repair facility. The Town moved its garage facility and sold the site for \$1,040,000, contributing \$500,000 toward the clean-up of the site. A private developer has constructed a commercial and residential complex that yields approximately \$200,000 annually in new tax revenue.

Assisted in conducting the sale of a state owned building at 1010 Commonwealth Avenue to commercial use that fits into the neighborhood. This project has yielded approximately \$147,000 in real estate taxes annually.

The development of a hotel on the site of a parking lot formally owned by the Town. This 200 room hotel generates approximately \$300,000 annually in room occupancy fees and \$300,000 in real estate taxes annually.

Launched several commercial area support efforts including:

- Producing a Town wide festival that promotes holiday shopping and dining in Brookline
- Providing analysis of census data for marketing use by the many small independent businesses
- Developing vacancy rate data and type of use statistics to more precisely understand trends and take appropriate actions
- Implementing an information kiosk as a Town service and an inexpensive marketing vehicle for local business
- Collaborating with the Transportation Board on efforts to maximize the effectiveness of existing commercial parking capacities.

## PROPERTY TAXATION

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

The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the Massachusetts Commissioner of Revenue. Excepting special funds the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the Commonwealth's Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years.

Although an allowance is made in the tax levy for abatements (see "Abatements and Overlay," below), no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see "Taxation to Meet Deficits," below).

### Tax Levy Computation

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

	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009
<b>GROSS AMOUNT TO BE RAISED(1)</b>					
Appropriations	\$ 240,927,627	\$ 225,025,340	\$ 216,962,102	\$ 219,737,924	\$ 214,823,409
Other Local Expenditures	134,160	131,839	278,858	128,079	147,866
State and & County Charges	6,087,819	5,671,508	5,556,335	5,550,741	5,424,518
Overlay Reserve (2)	1,958,780	1,910,493	1,795,169	1,618,338	1,535,026
<b>Total Gross Amount to be Raised:</b>	<b>249,108,386</b>	<b>232,739,180</b>	<b>224,592,464</b>	<b>227,035,082</b>	<b>221,930,819</b>
<b>LESS ESTIMATED RECEIPTS AND OTHER REVENUE:</b>					
Estimated Receipts from State (3)	15,131,276	13,383,563	13,796,542	16,536,492	19,623,724
Estimated Receipts - Local Available Funds Appropriated	48,619,768	46,167,398	45,328,797	45,576,697	45,149,515
Free Cash	5,336,413	5,380,264	4,590,079	7,053,295	5,954,963
Other Available Funds	9,883,319	4,187,467	2,998,760	5,187,425	3,929,582
<b>Total Estimated Receipts and Other Revenue</b>	<b>78,970,776</b>	<b>69,118,692</b>	<b>66,714,178</b>	<b>74,353,909</b>	<b>74,657,784</b>
<b>NET AMOUNT TO BE RAISED (TAX LEVY):</b>	<b>\$ 170,137,610</b>	<b>\$ 163,620,488</b>	<b>\$ 157,878,286</b>	<b>\$ 152,681,173</b>	<b>\$ 147,273,068</b>
Property Valuation (000)	\$ 15,519,229	\$ 15,264,163	\$ 14,926,163	\$ 14,841,644	\$ 14,709,311
Tax Rate per \$1,000:					
Residential	\$ 11.65	\$ 11.40	\$ 11.30	\$ 10.97	\$ 10.69
Other (4)	\$ 18.97	\$ 18.58	\$ 18.30	\$ 17.80	\$ 17.32

Source: Massachusetts Department of Revenue.

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

- (1) Includes water, sewer and golf course department budgets.
- (2) Allowance for abatements.
- (3) In fiscal 2010, local aid from the Commonwealth was reduced by \$3.01 million (16%) from fiscal 2009, exclusive of MSBA reimbursement. In fiscal 2011, the reduction was \$2.74 million (17%) from fiscal 2010, exclusive of MSBA reimbursement.
- (4) Commercial/Industrial/Personal Property.

## Assessed Valuation

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

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

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

Valuation of real and personal property in Brookline is established by the Town's Board of Assessors. The Town underwent revaluation most recently in 2012. The following table sets forth the trend in the Town's assessed and equalized valuations (see "State Equalized Valuation," below):

Fiscal Year	Real Estate Valuation	Property Valuation	Assessed Valuation (1)	Equalized Valuation (2)	Assessed Valuation as a Percent of Equalized Valuation
2013	\$ 15,334,639,640	\$ 184,589,740	\$ 15,519,229,380	\$ 16,226,713,800	95.6 %
2012	15,084,958,400	179,205,020	15,264,163,420	16,024,896,500	95.3
2011	14,781,018,800	145,418,280	14,926,437,080	16,024,896,500	93.1
2010	14,703,432,300	138,212,160	14,841,644,460	15,563,591,600	95.4
2009	14,576,646,000	132,665,180	14,709,311,180	15,563,591,600	94.5

(1) Source: Town's Board of Assessors.

(2) Source: Massachusetts Department of Revenue.

## Classification of Property

Following is a breakdown by classification of the Town's assessed valuations for the current and two prior fiscal years:

Property Type	2013		2012		2011	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Residential(1)	\$ 14,045,797,140	90.5 %	\$ 13,824,754,700	90.6 %	\$ 13,550,832,800	90.8 %
Commercial	1,274,617,400	8.2	1,246,068,700	8.2	1,216,769,000	8.2
Industrial	14,225,100	0.1	14,135,000	0.1	13,417,000	0.1
Personal	184,589,740	1.2	179,205,020	1.2	145,418,280	1.0
Total Real Estate	<u>\$ 15,519,229,380</u>	<u>100.0 %</u>	<u>\$ 15,264,163,420</u>	<u>100.0 %</u>	<u>\$ 14,926,437,080</u>	<u>100.0 %</u>

(1) Source: Town's Board of Assessors.

## Major Taxpayers

Following is a list of the Town's major taxpayers based on assessed valuations for fiscal 2013, all of whom are current in their tax payments:

Name	Nature of Business	FY13 Assessed Valuation	FY13 Property Tax	Percent of
Boston University Trustees	Higher Education	\$ 107,804,900	\$ 1,648,436	1.01 %
830-850 Ventures LLC	Office Building	77,927,600	1,478,287	0.90
Boston Edison Co./ Nstar	Electric Utility	75,783,600	1,437,615	0.88
Hamilton Park Towers LLC (Dexter Park)	Apartments	115,097,600	1,340,887	0.82
Ten Brookline Place LLC	Office Building	60,788,000	1,153,148	0.70
Keypoint Partners LLC (1 Brookline Place)	Medical Office Bldg	50,697,000	961,722	0.59
Hancock Village (Chestnut Hill Realty)	Apartments	78,974,400	920,052	0.56
The Country Club	Private Golf Club	48,215,240	903,660	0.55
Hersha Hospitality LP (Marriott)	Hotel	41,726,000	791,542	0.48
HRC Brookline Housing	Apartments	63,120,000	750,910	0.46
Boston Gas Company/National Grid	Gas Distribution	32,865,330	623,455	0.38
Brookline Hospitality LLC (Holiday Inn)	Hotel	27,255,700	517,041	0.32
1101 Beacon Stareet Associates LP	Office/Retail Bldg	31,364,400	474,726	0.29
Pierce Building Associates	Office/Retail Bldg	22,921,100	434,813	0.27
1501 Beacon Street LLC	Apartments	36,439,700	424,523	0.26
Lawrence Kaplan Trust	Residential	35,115,300	409,093	0.25
Verizon New England	Telephone Utility	19,475,300	369,446	0.23
		<u>\$ 925,571,170</u>	<u>\$ 14,639,356</u>	<u>8.95 %</u>

Source: Board of Assessors.

## State Equalized Valuation

In order to determine appropriate relative values for the purpose of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the full and fair cash value of the taxable property in each municipality. This is known as "equalized value." The following table sets forth the trend in equalized valuations of the Town of Brookline:

As of January 1	State Equalized Valuation
2012	\$ 16,264,277,000
2010	16,024,896,500
2008	15,563,591,600
2006	14,826,752,900
2004	12,574,894,600
2002	9,669,674,100
2000	7,371,209,100

## Tax Collections

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

Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and subject to bankruptcy and insolvency laws. (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment. It is the Town's practice to commence taking of real property for non-payment of taxes within two years from the due date of the taxes.

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

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

Following is a summary of the Town's tax collections for the last five fiscal years:

<u>Fiscal Year</u>	<u>Tax Rate Per \$1,000 (1)</u>	<u>Total Tax Levy</u>	<u>Net Tax Levy (2)</u>	<u>% of Net Collected at FY End (3)(4)</u>	<u>% of Net Collected at June 30, 2012</u>
2012	11.40-R 18.58-O	\$163,627,088	\$161,716,595	99.3%	99.3%
2011	11.30-R 18.30-O	157,894,288	156,099,119	99.0	99.9
2010	10.97-R 17.80-O	152,681,173	151,062,835	99.1	100.0
2009	10.69-R 17.32-O	147,273,068	145,738,042	98.9	100.0
2008	10.18-R 16.70-O	135,811,899	133,953,752	99.2	100.0

Source: Board of Assessors as to rates and levies; Town Collector as to collections.

- (1) R - Residential; O - Other (commercial, industrial, personal property).
- (2) Net of overlay reserve for abatements.
- (3) Actual collections less refunds, but excluding proceeds of tax titles and possessions attributable to that year's levy. Non-cash credits which may be abated later are not included in the amount allowed for refunds here.
- (4) i.e., at the end of the fiscal year for which levied.

### Overlay and Abatements

The following table sets forth the amount of overlay reserve for the last five fiscal years and abatements or exemptions granted through June 30, 2012 of each levy year.

<u>Fiscal Year</u>	<u>Overlay Allowance</u>		<u>Abatements Granted At June 30, 2012(1)</u>	<u>Overlay Transfers</u>	<u>Overlay Excess (Deficit)</u>
	<u>Dollar Amount</u>	<u>Percent of Total Levy</u>			
2012	\$ 1,910,493	1.21 %	\$ 526,656	\$ -	\$ 1,383,837
2011	1,795,169	1.14	691,289	-	1,103,880
2010	1,618,338	1.03	895,670	-	722,668
2009	1,535,059	1.04	1,173,400	-	361,626
2008	1,858,147	1.37	891,359	-	966,788

Source: Town Collector.

- (1) Includes real estate and personal property tax abatements for five prior fiscal years. At the Fall Annual Town Meeting in November 2012, the Town voted to transfer \$1,750,000 overlay surplus to fund the feasibility / schematic design phase of the Devotion School project.

## Taxes Outstanding

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

The following table presents aggregate taxes outstanding, tax titles and tax possessions for the last five fiscal years:

<u>As of June 30</u>	<u>Aggregate Taxes Outstanding (1)</u>	<u>Tax Titles</u>	<u>Tax Possessions</u>
2012	\$ 1,346,616	\$ 1,553,743	\$ -
2011	1,604,165	1,379,551	-
2010	1,355,129	1,446,044	-
2009	1,500,776	1,265,379	-
2008	1,359,231	1,306,938	-

Source: Town Collector.

(1) For the last five fiscal years. Excludes abated taxes. Includes taxes in litigation if any.

## Sale of Tax Receivables

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

## Taxation to Meet Deficits

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

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

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

## Tax Limitations

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

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

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than

2½ percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation.

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

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

The Commonwealth's Commissioner of Revenue may adjust any tax limit "to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year".

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

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

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

## Unused Levy Capacity (1)

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

	Fiscal Year				
	2013	2012	2011	2010	2009
Primary Levy Limit (2)	\$ 341,957,266	\$ 336,152,486	\$ 327,984,637	\$ 371,041,112	\$ 367,732,780
Prior Fiscal Year Levy Limit	162,553,809	156,653,254	151,047,971	145,644,643	134,259,885
2.5% Levy Growth	4,063,845	3,916,331	3,776,199	3,641,116	3,356,497
Current Fiscal Year New Growth (3)	1,920,101	1,984,224	1,829,084	1,762,212	1,828,261
Current Fiscal Year Override	-	-	-	-	6,200,000
Growth Levy Limit	168,537,755	162,553,809	156,653,254	151,047,971	145,644,643
Current Fiscal Year Debt Exclusions	1,630,808	1,090,408	1,258,944	1,667,074	1,692,696
Current Fiscal Year Capital Expenditure Override	-	-	-	-	-
Tax Levy Limit	170,168,563	163,644,217	157,912,198	152,715,045	147,337,339
Tax Levy	170,137,610	163,620,488	157,878,286	152,681,173	147,273,068
Unused Levy Capacity (4)	30,953	23,729	33,912	33,872	64,271
Unused Primary Levy Capacity (5)	\$ 173,419,511	\$ 173,598,677	\$ 171,331,383	\$ 219,993,141	\$ 222,088,137

(1) Source: Massachusetts Department of Revenue.

(2) 2.5% of assessed valuation.

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

(4) Tax Levy Limit less Tax Levy.

(5) Primary Levy Limit less Growth Levy Limit.

## Pledged Taxes

Taxes on the increased value of certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes.

## Proposition 2½

Since the passage of Proposition 2½ in 1980, the Town approved a permanent operating override in the amount of \$2,960,000 in fiscal 1995 and has voted to exempt debt service on \$56,800,000 principal amount of bonds from its limitations; i.e., \$13,000,000 in 1990 for the construction of a new elementary school and \$43,800,000 in 1995 for a comprehensive high school remodeling project.

On May 6, 2008, the Town voted a permanent operating override in the amount of \$6.2 million by a 5,236 to 4,305 vote margin.

## Tax Increment Financing For Development Districts

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

## Initiative Petitions

Various proposals have been presented in recent years for amendments to the Massachusetts Constitution to impose limits on state and local taxes. In order to be adopted, such constitutional amendments must be approved by two successive legislatures and then by the voters at a state election.

## Community Preservation Act

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

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

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

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

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

The Town has not adopted the Community Preservation Act.

## TOWN FINANCES

### The Budget and Appropriation Process

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

Under certain circumstances and subject to certain limits and requirements, the city council of a city, upon the recommendation of the mayor, may transfer amounts appropriated for the use of one department (except for a municipal light department or a school department) to another appropriation for the same department or for the use of any other department. In a town, town meeting may at any time vote to transfer any amount previously appropriated to any other authorized use by law, and, under certain circumstances and subject to certain limits and requirements, the selectmen of a town, with the concurrence of the finance committee, may transfer amounts appropriated for the use of any department to any other appropriation for the same department or to any other department.

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

The school budget is limited to the total amount appropriated by the city council or town meeting, but the school committee retains full power to allocate the funds appropriated. State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors. (See "STATE DISTRIBUTIONS" below.)

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for, and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "PROPERTY TAX" above.)

### Operating Budget Trends

	FY 09 Budget	FY 10 Budget	FY 11 Budget	FY 12 Budget	FY 13 Budget
General Government	\$ 7,541,103	\$ 7,358,456	\$ 7,459,927	\$ 7,530,240	\$ 7,613,982
Public Safety	34,067,998	33,644,611	33,810,858	33,916,401	34,203,529
Public Works (1)	12,901,418	12,879,990	12,772,571	13,047,912	13,506,966
Human Services	2,216,197	2,205,625	2,210,741	2,283,803	2,375,657
Leisure Services	4,416,404	4,438,745	4,407,760	4,535,121	4,698,275
Debt Service	12,374,047	12,572,215	9,594,781	10,404,421	10,046,874
Retirement	11,651,618	13,258,716	13,999,954	14,612,334	15,767,048
Group Insurance	23,084,980	24,323,604	22,709,947	23,481,929	25,680,300
Other Personnel Benefits	4,843,528	4,232,000	4,114,000	4,729,000	4,814,660
Education	68,021,240	68,823,845	72,043,133	75,387,188	79,079,824
Non-Departmental	2,512,031	3,752,588	2,863,427	3,082,885	2,907,707
Special Appropriations (2)	8,575,748	9,260,572	7,102,000	6,979,000	12,933,500
Salary Reserves (3)	-	-	475,000	1,175,000	1,775,000
<b>Total</b>	<b>\$ 192,206,312</b>	<b>\$ 196,750,967</b>	<b>\$ 193,564,099</b>	<b>\$ 201,165,234</b>	<b>\$ 215,403,322</b>

Source: Town Comptroller.

- (1) Water and Sewer are accounted for in enterprise funds.
- (2) These are "pay-as-you-go" capital projects
- (3) FY09 and FY10 Salary Adjustments are within departments.

## Capital Improvements Program

To address the Town's capital improvement needs in a fiscally prudent manner, the Town has a multi-year Capital Improvements Program ("CIP") which serves as a guide for the Town in establishing priorities for the timing of future capital projects. Among the policies considered in the preparation of the CIP are: the use of state and/or federal grant funding wherever possible; self-supporting debt through enterprise revenues; bond maturities reflecting the useful life of the capital project being funded (usually 10 years or less); and the ratio of net direct debt service to net operating revenue.

The current Capital Improvements Program for the six-year period FY 2013-2018 proposes capital expenditures having a gross cost of \$154,198,128.

### Costs of the Capital Improvements Program Yearly by Source of Funds

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	TOTAL
Property Tax	\$ 3,325,771	\$ 3,250,141	\$ 3,790,913	\$ 3,925,993	\$ 2,428,689	\$ 1,304,434	\$ 18,025,941
Free Cash	3,947,729	3,008,859	2,990,087	2,958,007	2,943,311	2,935,566	18,783,559
Overlay Surplus	2,150,000	-	-	-	-	-	2,150,000
General Fund Bond	3,450,000	1,600,000	51,000,000 (1)	4,325,000	3,250,000	2,950,000	66,575,000
State / Federal Grants	948,938	2,448,938	31,548,938	1,348,938	948,938	948,938	38,193,628
Utility Budget	300,000	260,000	-	-	-	-	560,000
Utility Bond	-	-	-	3,000,000	-	-	3,000,000
CDBG (2)	-	2,250,000	-	-	-	-	2,250,000
Other	3,910,000	750,000	-	-	-	-	4,660,000
<b>TOTAL</b>	<b>\$ 18,032,438</b>	<b>\$ 13,567,938</b>	<b>\$ 89,329,938</b>	<b>\$ 15,557,938</b>	<b>\$ 9,570,938</b>	<b>\$ 8,138,938</b>	<b>\$ 154,198,128</b>

Source: Town Finance Director.

- (1) Reflects borrowing for the Devotion School.
- (2) Community Development Block Grant.

## Revenues

**Property Taxes:** Property taxes are the major source of revenue of the Town. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "PROPERTY TAXATION - Tax Limitations," above.

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

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

The following are state aid payments received by the Town for the last five fiscal years:

<u>Fiscal Year</u>	<u>State Aid Receipts</u>
2013 (est.)	\$19,507,459
2012 (1)	25,334,852
2011 (1)	19,718,413
2010	16,912,114
2009	18,616,534
2008	19,544,682

Source: Town Comptroller.

(1) Includes school construction grants from the Massachusetts School Building Authority (\$5,547,769 in FY2012 and \$912,112 in FY2011).

### **School Building Assistance Program**

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

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

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

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

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

## Federal Aid

In addition to state aid, the Town receives annually certain amounts of federal aid. Presented below is an estimate for fiscal 2013 and a five-year history of the Town's federal aid receipts:

<u>Fiscal Year</u>	<u>Federal Aid Receipts</u>
2013	\$3,971,204*
2012	4,393,415
2011	7,194,443
2010	7,185,845
2009	4,985,207
2008	5,597,735

Source: Town Comptroller.

\*Estimated, subject to change.

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

The following table presents a five-year history of motor vehicle excise tax receipts of the Town:

<u>Fiscal Year</u>	<u>Receipts (1)</u>
2012	\$5,111,237
2011	5,178,153
2010	4,757,579
2009	5,077,548
2008	5,394,734

Source: Town Finance Director.

(1) Net after refunds. Includes receipts from prior years' levies.

**Room Occupancy Tax:** In 1985 the State legislature made available a local option room occupancy excise tax as an additional source of revenue for municipalities. Under this tax, local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed six percent (6%) of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house to the Commonwealth's Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located in quarterly distributions. The Town is currently levying this tax at the maximum rate of six percent (6%).

The following table sets forth the Town's room occupancy tax receipts for the last five fiscal years:

<u>Fiscal Year</u>	<u>Receipts</u>
2012	\$1,364,218
2011	1,244,887
2010 (1)	907,474
2009	788,531
2008	742,744

Source: Town Finance Director.

(1) Rate increased to 6% effective October 1, 2009.

## **Local Options Meals Tax**

On August 31, 2009, the Town adopted the local meals excise tax to be effective October 1, 2009. In fiscal year 2010, the local meals excise tax is a 0.75% tax on the gross receipts of a vendor from the sale of restaurant meals. The tax is paid by the vendor to the Commonwealth's Commissioner of Revenue, who in turn pays the tax to the municipality in which the meal was sold. The revenue from this tax was \$1,003,402 in fiscal 2012 and is expected to be approximately \$1,100,000 in future years.

## **Water and Sewer Rates and Services**

Water and sewer services are provided to 100% of the Town. Currently all costs associated with water and sewer services are supported by rates paid by users of the water and sewer systems. In fiscal 2012, water and sewer revenues totaled \$25,014,615, while expenditures totaled \$24,368,482.

## **Annual Audits**

The Town's accounts are audited annually, most recently for fiscal year ended June 30, 2012 by the firm of Powers & Sullivan P.C. The audit for fiscal year ended June 30, 2012 is attached hereto as Appendix A.

The attached report speaks only as of its dates, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

## **Financial Statements**

Set forth on the following pages are Governmental Funds Balance Sheets for the fiscal years ended June 30, 2012, June 30, 2011 and June 30, 2010, and a Comparative Statement of Revenues, Expenditures and Changes in Fund Equity (General Fund) for fiscal years 2008 through 2012. Said statements have been extracted from the Town's audited financials.

**TOWN OF BROOKLINE, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
JUNE 30, 2012 (1)**

<b>ASSETS</b>	General	Runkle School Renovation Fund	Capital Article Fund	Capter 90 Governmental Funds	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 31,409,871	\$ 2,029,033	\$ 12,213,582	\$ -	\$ 24,556,110	\$ 70,208,596
Investments	-	-	-	-	5,348,981	5,348,981
Receivables, net of uncollectibles:						
Real estate and personal property taxes	1,742,551	-	-	-	-	1,742,551
Tax liens	1,575,065	-	-	-	-	1,575,065
Motor vehicle excise taxes	97,527	-	-	-	-	97,527
User fees	130,565	-	-	-	-	130,565
Department and other	3,219,965	-	-	-	50,847	3,270,812
Intergovernmental	4,212,436	1,311,000	-	3,094,181	2,022,219	10,639,836
Loans	-	-	-	-	111,022	111,022
Due from other funds	633,446	-	-	-	-	633,446
Prepaid expenses	212,211	-	-	-	4,668	216,879
<b>TOTAL ASSETS</b>	<b>\$ 43,233,637</b>	<b>\$ 3,340,033</b>	<b>\$ 12,213,582</b>	<b>\$ 3,094,181</b>	<b>\$ 32,093,847</b>	<b>\$ 93,975,280</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Warrants payable	\$ 1,902,830	\$ 2,516,122	\$ 194,717	\$ 80,014	\$ 1,451,294	\$ 6,144,977
Accrued liabilities	43,249	45,303	2,383	-	44,547	135,482
Accrued payroll	1,034,378	-	-	-	40,842	1,075,220
Tax refunds payable	2,813,606	-	-	-	-	2,813,606
Liabilities due depositors	6,179	-	-	-	-	6,179
Abandoned property	182,487	-	-	-	5,997	188,484
Other liabilities	907,280	-	-	-	33,904	941,184
Deferred revenues	10,331,952	-	-	2,813,987	2,531,293	15,677,232
Due to other funds	-	-	-	383,446	-	383,446
<b>TOTAL LIABILITIES</b>	<b>17,221,961</b>	<b>2,561,425</b>	<b>197,100</b>	<b>3,277,447</b>	<b>4,107,877</b>	<b>27,365,810</b>
<b>FUND BALANCES:</b>						
Nonspendable	-	-	-	-	1,336,556	1,336,556
Restricted	-	-	-	-	23,390,376	23,390,376
Committed	-	778,608	12,016,482	-	3,259,038	16,054,128
Assigned	1,210,629	-	-	-	-	1,210,629
Unassigned	24,801,047	-	-	(183,266)	-	24,617,781
<b>TOTAL FUND BALANCES</b>	<b>26,011,676</b>	<b>778,608</b>	<b>12,016,482</b>	<b>(183,266)</b>	<b>27,985,970</b>	<b>66,609,470</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 43,233,637</b>	<b>\$ 3,340,033</b>	<b>\$ 12,213,582</b>	<b>\$ 3,094,181</b>	<b>\$ 32,093,847</b>	<b>\$ 93,975,280</b>

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

**TOWN OF BROOKLINE, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
JUNE 30, 2011 (1)**

<b>ASSETS</b>	General	Capital Article Fund	Chapter 90 Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short term investments	\$ 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
Department 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>					
Liabilities:					
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>

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

**TOWN OF BROOKLINE, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
JUNE 30, 2010 (1)**

<b>ASSETS</b>	General	Capital Article Fund	Chapter 90 Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short term investments	\$ 23,345,392	\$ 10,477,333	\$ 77,528	\$ 24,056,965	\$ 57,957,218
Investments	-	-	-	4,447,461	4,447,461
Receivables, net of uncollectibles:					
Real estate and personal property taxes	1,493,824	-	-	-	1,493,824
Tax liens	1,454,602	-	-	-	1,454,602
Motor vehicle excise taxes	192,432	-	-	-	192,432
User fees	119,864	-	-	-	119,864
Department and other	3,088,874	-	-	94,807	3,183,681
Intergovernmental	6,783,008	-	3,249,306	1,351,920	11,384,234
Loans	-	-	-	163,393	163,393
Due from other funds	300,000	-	-	-	300,000
Prepaid expenses	227,992	-	-	1,699	229,691
<b>TOTAL ASSETS</b>	<b>\$ 37,005,988</b>	<b>\$ 10,477,333</b>	<b>\$ 3,326,834</b>	<b>\$ 30,116,245</b>	<b>\$ 80,926,400</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Warrants payable	\$ 1,499,735	\$ 613,725	\$ -	\$ 1,127,053	\$ 3,240,513
Accrued liabilities	270,382	15,792	-	56,276	342,450
Accrued payroll	1,616,833	-	-	25,662	1,642,495
Tax refunds payable	2,370,000	-	-	-	2,370,000
Liabilities due depositors	4,762	-	-	-	4,762
Abandoned property	285,059	-	-	5,997	291,056
Other liabilities	586,103	-	-	33,588	619,691
Deferred revenues	12,450,299	-	3,249,306	722,155	16,421,760
<b>TOTAL LIABILITIES</b>	<b>19,083,173</b>	<b>629,517</b>	<b>3,249,306</b>	<b>1,970,731</b>	<b>24,932,727</b>
<b>FUND BALANCES:</b>					
Reserved for:					
Encumbrances and continuing appropriations	1,449,307	-	-	-	1,449,307
Loans	-	-	-	163,393	163,393
Perpetual permanent funds	-	-	-	1,067,531	1,067,531
Unreserved:					
Designated for subsequent year's expenditures	4,590,079	-	-	-	4,590,079
Undesignated, reported in:					
General fund	11,883,429	-	-	-	11,883,429
Special revenue funds	-	-	77,528	20,463,981	20,541,509
Capital projects funds	-	9,847,816	-	2,117,912	11,965,728
Permanent funds	-	-	-	4,332,697	4,332,697
<b>TOTAL FUND BALANCES</b>	<b>17,922,815 (2)</b>	<b>9,847,816</b>	<b>77,528</b>	<b>28,145,514</b>	<b>55,993,673</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 37,005,988</b>	<b>\$ 10,477,333</b>	<b>\$ 3,326,834</b>	<b>\$ 30,116,245</b>	<b>\$ 80,926,400</b>

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

(2) Restated from June 30, 2009. Prior year General Fund balance sheets included Capital Article Fund.

**TOWN OF BROOKLINE, MASSACHUSETTS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GENERAL FUND (1)**

	Year Ended June 30,				
	2012	2011	2010	2009	2008
<b>Revenues:</b>					
Real estate and personal property taxes, net tax refunds	\$ 162,270,287	\$ 156,157,408	\$ 151,452,964	\$ 147,553,179	\$ 133,127,009
Motor vehicle and other excise taxes	4,996,690	5,178,153	4,694,128	5,027,901	5,291,912
Charges for services	4,790,393	4,776,101	4,829,006	5,006,364	4,892,038
Payments in lieu of taxes	1,022,790	908,270	1,029,056	989,282	907,316
Licenses and permits	3,421,805	3,586,851	3,183,139	3,227,512	3,622,581
Fines and forfeitures	4,333,279	4,274,494	4,280,894	4,518,301	4,555,357
Intergovernmental	28,803,554	29,019,485	49,294,869	31,343,464	31,435,776
Departmental and other	1,367,423	1,238,807	849,708	599,320	1,536,102
Hotel/motel tax	2,367,620	1,244,887	907,474	788,531	742,744
Penalties and interest on taxes	565,628	498,405	532,328	494,311	455,388
Investment income	395,767	433,933	251,538	942,808	1,934,480
<b>Total Revenues</b>	<b>\$ 214,335,236</b>	<b>\$ 207,316,794</b>	<b>\$ 221,305,104</b>	<b>\$ 200,490,973</b>	<b>\$ 188,500,703</b>
<b>Expenditures:</b>					
Current:					
General government	\$ 8,052,265	\$ 8,336,784	\$ 8,783,709	\$ 9,732,504	\$ 9,977,959
Public safety	34,375,437	33,799,665	32,797,120	34,348,558	32,575,654
Education	75,263,392	72,076,627	69,195,643	68,772,169	64,010,466
Public works	13,292,836	14,444,282	13,156,104	17,233,710	15,987,452
Human services	2,303,134	2,275,520	2,157,458	2,283,624	2,154,633
Leisure services	4,622,224	4,444,419	4,355,284	4,683,332	4,848,599
Pension benefits	30,190,262	28,600,375	26,779,555	24,397,914	23,386,289
Fringe benefits	27,116,815	26,087,430	28,688,384	24,714,243	23,565,040
State and county charges	5,654,190	5,576,032	5,559,230	5,493,891	5,410,405
Debt service:					
Principal	7,931,237	7,105,400	8,311,176	8,232,309	7,290,036
Interest	2,119,798	2,109,205	2,809,580	4,035,097	3,542,544
<b>Total Expenditures</b>	<b>\$ 210,921,590</b>	<b>\$ 204,855,739</b>	<b>\$ 202,593,243</b>	<b>\$ 203,927,351</b>	<b>\$ 192,749,077</b>
Excess (deficiency) of revenues over expenditures	3,413,646	2,461,055	18,711,861	(3,436,378)	(4,248,374)
Other Financing Sources (Uses):					
Proceeds from refunded bond escrow agent	(4,815,863)	-	(30,215,210)	-	(1,962,868)
Proceeds from refunding bonds	4,375,500	-	10,659,400	-	1,948,000
Premium from issuance of bonds	630,808	14,507	258,415	-	86,828
Premium from issuance of refunding bonds	440,363	-	501,348	-	-
Sale of capital assets	3,668	-	2,015	-	252,300
Operating transfers in	6,196,316	4,829,278	5,052,659	5,630,070	5,404,928
Operating transfers out	(7,756,810)	(7,102,000)	(225,000)	(47,282)	(550,000)
<b>Total other financing sources (Uses)</b>	<b>(926,018)</b>	<b>(2,258,215)</b>	<b>(13,966,373)</b>	<b>5,582,788</b>	<b>5,179,188</b>
Net change in fund balances	2,487,628	202,840	4,745,488	2,146,410	930,814
Fund Equity, beginning of year	23,524,048	23,321,208	13,177,327 (2)	32,246,625	31,315,811
Fund equity, end of year	<b>\$ 26,011,676</b>	<b>\$ 23,524,048</b>	<b>\$ 17,922,815</b>	<b>\$ 34,393,035</b>	<b>\$ 32,246,625</b>

(1) Extracted from annual audited financial statements.

(2) Restated from June 30, 2009. Prior year General Fund balance sheets included Capital Article Fund. Prior year General Fund Balances included Encumbrances and Continuing appropriations and Designated for subsequent year's expenditures associated with capital projects. Those balances are now found in the Capital Article Fund.

## Undesignated/Unassigned General Fund Balance

The following table presents the Town's undesignated and unassigned general fund balances for the last five fiscal years:

<u>FY Ending June 30</u>	<u>Undesignated General Fund Balance</u>
2012	\$ 24,801,049 (1)
2011	22,555,076 (1)
2010	11,883,429
2009	12,604,133
2008	16,688,414
2007	13,823,065

Source: Audited Financial Statements.

(1) Unassigned General Fund Balance. Extracted from audited financial statements. Due to the changes in GASB fund balance reporting practices, Unassigned General Fund Balance includes Stabilization Fund Balances.

## Stabilization Fund

The Town maintains a stabilization fund that is accounted for in the Trust Funds. The Stabilization Fund plus accrued interest income may be appropriated at an annual or special town meeting for any municipal purpose. The following table presents the Town's stabilization fund balances for the last five fiscal years.

<u>FY Ending June 30,</u>	<u>Stabilization Fund Balance</u>
2012	\$ 5,808,860
2011	5,503,842
2010	5,398,393
2009	5,356,986
2008	5,249,522

## Liability / Catastrophe Fund

The Town maintains a liability/catastrophe fund that is accounted for in the Trust Funds. This reserve was established by Town Meeting in 1997 via Home Rule legislation that was eventually signed into law on April 3, 1998. The purpose of the Fund is to allow the Town to set aside reserves, pay settlements and judgments, and protect the community from the negative financial impact of catastrophic loss or legal claims. Per the Town's Reserve Fund policies, the required level for this fund is an amount equivalent to 1% of the prior year's net revenue and it is funded via Free Cash. In order to expend from it, the Board of Selectmen must first approve it by a majority vote, and then a majority of the Advisory Committee, which is a group consisting of 20-30 registered voters of the Town whose primary function is to review and make recommendations on all matters to be considered by Town Meeting, as well as the only authority that may approve transfers from the Reserve Fund, must also approve it. The following table presents the Town's liability/catastrophe fund balances for the last five fiscal years.

<u>FY Ending June 30,</u>	<u>Liability/ Catastrophe Fund Balance</u>
2012	\$ 1,665,760
2011	1,519,359
2010	1,232,172
2009	366,863
2008	1,338,134

## **Investment of Town Funds**

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

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

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

## INDEBTEDNESS

### Authorization of General Obligation Bonds and Notes

Serial bonds and notes are authorized by vote of two-thirds of the Town Meeting. Refunding bonds and notes are authorized by the Selectmen. Borrowings for some purposes require Commonwealth administrative approval.

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

### Debt Limits

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

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

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

### Types of Obligations

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

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

Serial bonds may be issued as "qualified bonds" with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such

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

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

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

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

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

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy. This article is not intended to summarize laws relating to revenue bonds or to notes issued in anticipation of them. Industrial revenue bonds are also outside the scope of this article.

### **Trend in Revenue Anticipation Note Borrowing**

The Town has not borrowed against current revenues for the last five fiscal years, and does not anticipate the need to do so in fiscal 2013.

**Direct Debt Summary (1)**  
**Projected as of June 30, 2013**  
**Excluding the Effects of the Refunding**

General Obligation Bonds:		
Inside the Debt Limit		
Sewers & Drains	\$	5,332,500
Schools		4,135,000
MWRA		168,080
Other		20,054,176
Total Inside the Debt Limit		\$ 29,689,756
Outside the Debt Limit		
Water	\$	3,762,824
Sewers		385,000
Schools (2)		28,940,500
Other		6,190,000
Total Outside the Debt Limit		39,278,324
This Issue (3)		5,605,000
Short-Term Debt:		
Bond Anticipation Notes (4)		650,000
Total Direct Debt		<u>\$ 75,223,080</u>

- (1) Based on the Town's equalized valuation of \$16,024,896,500 effective January 1, 2010, its Normal General Debt Limit is \$801,244,825 and its Double General Debt Limit is \$1,602,489,650. (See "General Information on Debt Authorization and Legal Limit," above.)
- (2) Represents the balance remaining on \$13,000,000 School Bonds issued September 1, 1992 and refunded July 15, 2002 (exempt from Proposition 2 ½); \$43,800,000 school bonds issued April 1, 2000 (exempt from Proposition 2 ½) and refunded March 1, 2010 using a lump sum from the MSBA equal to the present value of the remaining grant payments associated with the project; and \$12,545,000 school bonds issued May 15, 2003. As of June 30, 2012, the unpaid balance of state school construction grants payable over the life of outstanding school bonds for both principal and interest, which amounts to approximately 61% of eligible project costs, is estimated at \$4,644,528.
- (3) Does not include refunding bonds.
- (4) To be issued concurrent with the Bonds. Payable May 30, 2014.

**Key Debt Ratios**

	As of June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Amount (1)	\$78,545,100	\$75,955,000	\$74,382,500	\$97,975,000	\$96,908,587
Per Capita (2)	\$1,337.35	\$1,293.25	\$1,302.51	\$1,715.64	\$1,696.96
Percent of Assessed Valuation (3)	0.53%	0.58%	0.50%	0.67%	0.68%
Percent of Equalized Valuation (4)	0.49%	0.47%	0.48%	0.63%	0.65%
Per Capita as a Percent of Personal Income Per Capita (2)	3.02%	2.92%	2.86%	3.92%	3.88%

- (1) Excludes temporary loans, lease-purchase obligations, overlapping debt, unfunded pension liability, and other liabilities or contractual obligations not more than 90 days past due.
- (2) Source: U.S. Department of Commerce, Bureau of the Census
- (3) Source: Board of Assessors. Assessed valuation as of the prior January 1.
- (4) Source: Massachusetts Department of Revenue – Equalized valuation in effect for that fiscal year. (Equalized valuations are established as of January 1 of even numbered years for the next two fiscal years.)

## Authorized Unissued Debt and Prospective Financing

Following delivery of the Bonds, the Town will have \$12,141,728 authorized unissued debt as follows:

Putterham Golf Course	\$ 815,000
Muddy River Restoration	745,000
Sewers	2,913,965
Runkle School	2,708,383
Landfill	3,275,000
Carlton Street Foot Bridge	1,090,000
Heath School	594,380
<b>Total</b>	<b>\$ 12,141,728</b>

At the Annual Town Meeting scheduled to commence on May 28, 2013, the Town will consider authorizing debt for the following projects: Municipal Services Center (\$2,500,000), Fisher Hill Park improvements (\$1,200,000), school roof repairs (\$1,350,000) and Lincoln School remodeling (\$3,000,000).

## Annual Debt Service Projected as of June 30, 2013 – Excluding the Effects of the Refunding (1)

Fiscal Year	Outstanding Debt (1)		This Issue (2)		Less State Aid	Net Debt Service	Cumulative % Principal Retired
	Principal	Interest	Principal	Interest			
2014	\$ 8,732,020	\$ 2,388,189	\$ 580,000	\$ 141,510	\$ (556,757)	\$ 11,284,962	12.7 %
2015	7,827,020	2,123,918	575,000	161,350	(556,757)	10,130,531	24.0
2016	7,392,020	1,873,818	575,000	149,850	(556,757)	9,433,931	34.7
2017	6,897,020	1,631,048	575,000	132,600	(556,757)	8,678,911	44.7
2018	6,065,000	1,397,923	575,000	115,350	(556,757)	7,596,516	53.5
2019	5,435,000	1,184,004	545,000	98,100	(556,757)	6,705,347	61.4
2020	4,975,000	1,002,291	545,000	76,300	(434,662)	6,163,929	68.6
2021	3,190,000	810,041	545,000	59,950	(434,662)	4,170,329	73.2
2022	2,935,000	687,379	545,000	38,150	(434,662)	3,770,867	77.5
2023	2,270,000	570,279	545,000	21,800	-	3,407,079	80.8
2024	2,265,000	488,595	-	-	-	2,753,595	84.1
2025	2,265,000	405,285	-	-	-	2,670,285	87.4
2026	1,875,000	320,138	-	-	-	2,195,138	90.1
2027	1,665,000	250,350	-	-	-	1,915,350	92.5
2028	1,665,000	188,444	-	-	-	1,853,444	94.9
2029	995,000	121,981	-	-	-	1,116,981	96.3
2030	995,000	88,969	-	-	-	1,083,969	97.8
2031	995,000	52,725	-	-	-	1,047,725	99.2
2032	530,000	15,900	-	-	-	545,900	100.0
<b>Total</b>	<b>\$ 68,968,080</b>	<b>\$ 15,601,274</b>	<b>\$ 5,605,000</b>	<b>\$ 994,960</b>	<b>\$ (4,644,528)</b>	<b>\$ 86,524,787</b>	

(1) Principal totaling \$6,430,000 and interest totaling \$862,200 has been exempted from the Proposition 2 ½ subject to the provisions of Chapter 44, Section 20.

(2) Does not include refunding bonds.

## Overlapping Debt

The following are the principal entities whose indebtedness is chargeable to the Town or payable from taxation of property within the Town:

Overlapping Entity	Outstanding Debt as of 6/30/12	Brookline Estimated Share (1)	Fiscal 2013 Dollar Assessment (2)
Norfolk County (2)	\$ 700,000	11.10 %	\$ 715,791
Massachusetts Water Resources Authority (3)			
Water	2,099,794,000	2.95	5,656,061
Sewer	4,027,396,000	2.75	12,401,739
Massachusetts Bay Transportation Authority (4)	5,769,214,580	1.34	4,964,175

- (1) Dollar assessment is based upon total net operating expenses, inclusive of debt service where applicable.
- (2) Source: County Treasurer's Office. Legislation enacted in 1997 abolished the county governments of Franklin and Middlesex Counties as of July 1, 1997, with their assets, functions, debts and other obligations being assumed by the Commonwealth. The abolishment of the Middlesex County government was in part in response to a default by the County in the payment of general obligation notes of the County. The legislation also abolished the county governments of Hampden and Worcester Counties as of July 1, 1998. Legislation enacted in 1998 abolished the county governments of Hampshire, Essex and Berkshire counties as of January 1, 1999, July 1, 1999 and July 1, 2000, respectively. The legislation also requires the state secretary for administration and finance to establish a plan to recover the Commonwealth's expenditures for liabilities and (continued on next page) other debts assumed and paid by the Commonwealth on behalf of an abolished county. Unless these provisions are changed by further legislation, the state treasurer shall assess upon each city and town within the jurisdiction of an abolished county an amount not exceeding or equal to the county tax paid by each city and town for the fiscal year immediately prior to the abolishment of the county until such expenditures by the Commonwealth are recovered. It is possible that similar legislation will be sought to provide for the abolishment of county governments in all the remaining counties.
- (3) Source: MWRA. Outstanding debt is as of June 30, 2012. The MWRA provides wholesale drinking water service in whole or in part to 48 cities, towns and special purpose entities and provides wastewater collection and treatment services to 43 cities, towns and special purpose entities. Under its enabling legislation, as amended, the MWRA may borrow up to \$5.8 billion for its corporate purposes. Its obligations are secured by revenues of the MWRA. The MWRA assesses member cities, towns and special purpose entities which continue to provide direct retail water and sewer services to users. The cities, towns and other entities collect fees from the users to pay all or part of the assessments; some municipalities levy property taxes to pay part of the amounts assessed upon them.
- (4) Source: MBTA. The MBTA was created in 1964 to finance and operate mass transportation facilities within the greater Boston metropolitan area. Under its enabling act, the MBTA is authorized to issue bonds for capital purposes, other than refunding bonds, and for certain specified purposes to an outstanding amount, which does not exceed the aggregate principal amount of \$3,556,300,000. In addition, pursuant to certain of the Commonwealth's transportation bond bills, the MBTA is authorized to issue additional bonds for particular capital projects. The MBTA also is authorized to issue bonds of the purpose of refunding bonds. Under the MBTA's enabling act debt service, as well as other operating expenses of the MBTA, are to be financed by a dedicated revenue stream consisting of the amounts assessed on the cities and towns of the MBTA and a dedicated portion of the statewide sales tax. The amount assessed to each city and town is based on its weighted percentage of the total population of the authority as provided in the enabling act. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year. (See "Tax Limitations" under "PROPERTY TAXATION" above.)

## Contractual Obligations

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

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

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

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

The Town is a participant in the following contracts:

<u>Name</u>	<u>Nature of Service</u>	<u>Contract Expires</u>	<u>Annual Cost Fiscal 2012</u>	<u>Estimated Annual Cost Fiscal 2013</u>
Whitney	Solid Waste	6/30/13	\$703,432	\$703,400
Whitney	White Goods & Metal	6/30/13	85,681	86,000
Lorusso	Yard Waste Disposal	6/30/15	126,569	118,700
Waste Management	Recycling	6/30/14	843,990	915,000
Ricoh	Copier Leases	(1)	67,750	67,750
Ricoh	Copier Leases	(1)	156,110	140,836
Riso	Copier Leases	(1)	1,026	1,026
Sun Trust	DPW Equipment	10/14/13	176,863	176,863
Sun Trust	DPW Recycling	8/14/2014	94,533	94,533
Sun Trust	DPW Equipment	8/14/2014	185,193	185,193
Sovereign Bank	DPW Equipment	8/14/2015	83,907	83,907
Eastern Bus	Student Transport-Metco	6/30/13	278,144	259,120
YCN	Student Transport-Sped	8/31/13	1,147,370	1,147,370

(1) Various; three, four or five years.

## RETIREMENT SYSTEM

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

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

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. The funding schedule must provide that payment in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule. Pursuant to legislation, a system (other than the state employees' retirement system and the

teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

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

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

Current membership in the Town's retirement system consists of the following:

	<u>Number of Employees</u>
Active members:	
Fully vested	499
Non-vested	773
Inactive members	1,234
Retired members	<u>853</u>
Total	<u>3,359</u>

The following table sets forth the annual contributions of the Town to the retirement system for the last five fiscal years and an estimate for the current fiscal year:

<u>Fiscal Year</u>	<u>Contributory</u>	<u>Non-Contributory (1)</u>
2013 (Budgeted)	\$15,617,048	\$150,000
2012	14,442,334	170,000
2011	13,784,954	215,000
2010	13,028,716	230,000
2009	11,421,618	230,000
2008	11,002,159	275,000

Source: Retirement Board.

(1) The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the Town's retirement system.

**Schedule of Funding Progress (000)**

As indicated below, as of January 1, 2012, the date of the latest actuarial valuation, the Town's retirement system's funded ratio was 55.9%:

Actuarial Valuation Date	Actuarial Value of Assets (000)(1)	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (000)(2)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Annual Covered Payroll
1/1/12	\$222,780	\$398,901	\$176,120	55.9%	\$58,829	299.0%
1/1/10	220,579	357,981	137,404	61.6	58,623	234.4
1/1/08	223,598	332,222	108,623	67.3	59,789	181.6
1/1/06	190,818	299,356	108,538	63.7	58,277	186.2
1/1/04	177,153	265,441	88,288	66.7	52,378	168.6
1/1/02	171,285	250,478	79,193	68.4	45,110	175.6
1/1/00	160,984	217,964	56,980	73.9	43,029	132.4

- (1) The actuarial value of the System's assets was determined using the fair value of the assets.
- (2) The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll.

For additional information on the Town's retirement system, please refer to Appendix A, Audited Financial Statements as of June 30, 2012.

**Other Post-Employment Benefits**

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

Fiscal Year	Benefit Costs
2012	\$ 9,676,948
2011	7,700,000
2010	8,331,375
2009	8,293,074
2008	6,156,390

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

In 2012, the Town hired Segal Group, Inc. to perform an actuarial valuation of its non-pension, post employment benefit liability. Assuming investment at 7.75% interest rate, the Town's unfunded liability is approximately \$177,706,871. The unfunded liability based upon an interest rate of 7.25% is approximately \$189,968,000. Special legislation was adopted several years ago that created the Retiree Health Trust Fund (the "RHTF"). Recently, the RHTF was amended to comply with GASB 43, allowing the Town to report its unfunded liability for accounting purposes assuming market rates of return for the assets in the RHTF. As of December 31, 2012, the fund balance was \$16,180,413.

## COLLECTIVE BARGAINING

Employees of Massachusetts municipalities have certain organizational and representational rights which include the right to organize, to bargain collectively by representatives of their choice on questions of wages, hours and other terms and conditions of employment, and to engage in lawful concerted activities for bargaining or other mutual aid or protection. Under Massachusetts law, strikes by municipal employees are prohibited.

The Town has approximately 2,500 employees. Approximately 62% belong to unions or other collective bargaining groups as shown below:

<u>Employee Category</u>	<u>Represented by</u>	<u>Number of Employees</u>	<u>Contract Expires (1)</u>
Police	Brookline Police Association	134	6/30/11
Firefighters	International Association of Firefighters	152	6/30/12
The Town Workers	AFSCME	233	6/30/12
Library	AFSCME	32	6/30/12
Engineers	Brookline Engineers Association	12	6/30/12
Teachers	Brookline Educators Association (MTA)	787	6/30/14
Custodians/Maintenance	Massachusetts Public Schools Custodians Association (AFSCME)	41	6/30/14
Secretaries	Brookline Educational Secretaries' Association	55	6/30/14
Cafeteria Workers	Massachusetts School Food Service Association	36	6/30/14
Bus Monitors	Brookline School Transportation Employees' Association	6	8/31/14
School Traffic Supervisors	AFSCME	30	6/30/12
Public Safety Dispatchers	Teamsters Local 25	15	6/30/12
Total		<u>1,533</u>	

(1) Expired contracts are currently in negotiations.

## LITIGATION

There are various suits pending in courts within the State in which the Town is a defendant. In the opinion of the Town, no litigation is pending, or to the Town's knowledge, threatened, which is likely to result; either individually or in the aggregate, in final judgments against the Town materially affecting its financial position.

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TOWN OF BROOKLINE, MASSACHUSETTS  
/s/ Stephen E. Cirillo, Finance Director/Treasurer

May 21, 2013

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***TOWN OF BROOKLINE, MASSACHUSETTS***

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

***FISCAL YEAR ENDED JUNE 30, 2012***

TOWN OF BROOKLINE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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# TOWN of BROOKLINE

## *Massachusetts*

### BOARD OF SELECTMEN

BETSY DEWITT, Chairman  
NANCY A. DALY  
JESSE MERMELL  
RICHARD W. BENKA  
KENNETH M. GOLDSTEIN

MELVIN A. KLECKNER  
Town Administrator

333 WASHINGTON STREET  
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### *Letter of Transmittal*

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, 2012 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, 2012, 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 rendered an unqualified opinion that the Town of Brookline's financial statements for the fiscal year ended June 30, 2012 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 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 educational and governmental services within its boundaries including:

- public education in grades pre-kindergarten through 12 to more than 6,600 students
- police and fire protection, 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/Representative Town Meeting form of government. The Board of Selectmen is an elected five-member chief executive body responsible for establishing overall policy leadership and direction. Local legislative decisions are made by a Representative Town Meeting consisting of 248 members and implemented by the 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 establishing 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, prior to her retirement in September, 2012), 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 Practices**

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 as the annual budget. The Board of Selectmen has 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 to the CIP 6% of the prior year's net revenue, plus free cash to the extent possible to reach a level of 7.5%, the annual plan 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 major 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	2015
Deputy Town Administrator	Sean Cronin	Appointed - 1 year	2013
Assistant Town Administrator	Melissa Goff	Appointed - 1 year	2013
Finance Director and Treasurer	Stephen Cirillo	Appointed - 1 year	2013
Town Comptroller	Judith Haupin (thru 9/2012)	Appointed - 1 year	2013
Town Clerk	Patrick J. Ward	Elected - 3 years	2015
Town Counsel	Jennifer Dopazo Gilbert	Appointed - 3 years	2014

## 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 76% of general fund revenues are financed by the annual tax on property. The remaining revenues come from locally derived receipts (approximately 9%), State Aid (approximately 7%), transfers from other non-general funds (approximately 5%), and Free Cash (approximately 2%).

Residential properties comprise 90.6% of the full and fair value of the property in Brookline and they are responsible for 83.7% of the taxes. The Town has been adopting the tax classification authorization that permits it to set dual tax rates. The current tax rates are:

Residential	\$ 11.40 per thousand
Commercial	\$ 18.58 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 \$15.3 billion) has increased more than 76% over the past decade, reflecting strong development and real estate appreciation. The Town's tax base is the fifth largest in Massachusetts. Building permit activity continues at a strong pace, having averaged \$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.

## 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 Financial 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. Cost recovery efforts have also been increased in the recreation area, with the Recreation Revolving Fund picking up more of the costs of their programs. This has allowed for reductions in the Recreation Department's general fund budget.

## The Annual Financial Plan

Over the past decade, 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 the growth in this cost center:

- in FY 2008, 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 (FY 2011), 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.

Adding to the success story, since moving to the GIC, annual premium increases have been well below the levels realized prior to the move. The 4.4% increase in FY 2012 and the 2.2% increase in FY 2013 were the lowest levels of premium increase since FY 2002.

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 22 years.

Increases in the Town's contribution to the Retirement System have averaged more than \$900,000 over the past five years. As a result of the world-wide economic down-turn, government retirement systems experienced significant investment losses in both calendar year 2008 and 2011. Knowing that the calendar year 2008 losses would require the Town to dramatically increase the FY 2012 appropriation, the Town took steps to offset the anticipated budget impact by ramping up to the higher appropriation over a three-year period. This strategy was successful in moderating the budgetary impact in FY 2012. The Town also experienced investment losses in calendar year 2011, although not as dramatic as in 2008. In addition, the Town authorized an increase in the COLA ceiling from \$12,000 per retiree to \$13,000 per retiree. Combined, these two actions require a large increase in the Town's pension contribution in FY 2014. In response, the Town is proposing additional funding in FY 2013 to offset the increase in the following year. The most recent actuary, for the year ending December 31, 2011, includes the following changes to the financial assumptions:

- the anticipated rate of return on investments has been reduced from 8.15% to 7.75%
- the annual increase in the appropriation has been increased from 4.5% to 5.9%
- the estimate date of full funding of the unfunded liability has been changed from FY 2028 to FY 2030

Utility expenses have skyrocketed since FY 2003: the price of electricity has increased 106%; natural gas has increased by 173%; the price of heating oil is 317% higher; and the price of vehicle fuel is 165% higher. As a result, the Town's total utility budget has doubled since FY 2003 to \$5.7 million. In 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 are being 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 competitively procuring rates at less than the current price for the next few fiscal years. And the Town continues to replace aging vehicles with hybrids when possible.

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 below). Over the past six years, total K-8 enrollment has grown by more than 1,000 students (25%); in just the past three years, there has been an increase of more than 600 students (14%). Based upon available birth data and other demographic trends, this growth pattern is expected to continue for at least the next four years. This will result in total enrollment growth of approximately 1,400 students (36%) during the 10-year (FY 2005-FY 2015) period. In 2005, the K-8 elementary schools operated with 3,888 students in 196 homerooms. In FY 2013, they are teaching 5,074 students in 242 homerooms, an increase of 1,186 students (31%) and 46 homerooms (23%).

In order to create the classroom space necessary to accommodate this enrollment level, both larger-scale renovation projects and smaller-scale space conversion projects have been undertaken. The Runkle School was completely renovated and added onto while the Heath School recently completed an addition project. Within each of the other elementary schools, spaces intended for non-classroom purposes have been converted into regular classrooms. All of these projects have been funded via the CIP. Going forward, there is a renovation/addition project planned for at the Town's largest elementary school (Devotion School). In addition, planning is underway for space needs at the High School, as the larger classes currently in the elementary schools will eventually replace the current smaller classes in the High School, resulting in a space issue. The enrollment issue also impacts the operating budget side: with new classrooms comes the need for new teachers, supplies, and support services. This budget stress will continue over the next few years.

On the revenue side, property taxes comprise approximately three-quarters of the Town's General Fund revenue. The Town continues to levy the maximum allowable level of property taxes under Proposition 2 ½, leaving little "Excess Capacity". "New Growth" (property tax growth from new construction, renovations, etc.) has augmented the annual 2.5% growth in the levy, playing a large role in the Town's ability to maintain service levels. Over the past five years, New Growth has averaged just under \$2 million per year, allowing for an additional 1% growth in the largest revenue source of the Town.

Two revenue streams that impact the budget significantly are State Aid and Local Receipts. In FY 2003 and FY 2004, local aid was cut by close to \$3 million. In FY 2010, it was cut \$3.1 million and then by another \$700,000 in FY 2011 and \$413,000 in FY 2012. Between FY 2003 – FY 2012, state aid realized a cut of 29%, even before accounting for inflation. In FY 2013, the Town received a significant \$2 million increase in Chapter 70 (education aid) funding, which helped the schools cover the above-mentioned cost pressures resulting from enrollment growth and SPED. This was the most significant increase in Cherry Sheet state aid since FY 2001, when it increased \$1.3 million. In addition, the State increased statewide "Circuit Breaker" funding for SPED costs in FY 2013. This yielded additional revenue directly for the school budget. The current fiscal climate at the State and Federal levels is uncertain. Therefore, the Town will continue to plan conservatively for state aid. Any decreases in state aid will hinder the Town's ability to provide the current level of services it offers.

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 9% 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 new 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.

Free Cash continues to be used according to the Town's Free Cash Policy, which states that this volatile source of revenue shall be used for reserves, fund balance protection, capital projects, and augmenting employee-benefit funds (e.g., pensions, OPEB's). In FY 2012, the \$7.1 million of certified Free Cash was used for capital projects (\$4.4 million), fund balance protection (\$1.7 million left unappropriated), reserves (\$611 thousand), and affordable housing (\$355 thousand).

### **The Capital Improvement Program (CIP)**

Through the CIP process, the Town of Brookline has identified approximately \$153.9 million in capital improvements needed over the next six years. Large components of this total include the following:

- Anticipated school projects (\$95.5 million). It is important to note that the Devotion School renovation/addition project assumes that the Massachusetts School Building Authority (MSBA) covers approximately 41% of the costs. If the MSBA chooses not to partner with the Town, then either the project needs to be reduced or a debt exclusion override will be required.
- Rehabilitation of the Town's streets and sidewalks (\$17 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.
- Upgrades and rehabilitation of various parks/playgrounds/open spaces (\$14.2 million).
- 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 closure of the rear landfill (\$4.6 million).
- Fire station renovations and fire apparatus (\$4.6 million).
- The Village Square project in the Brookline Village / Route 9 area (\$4.5 million). The Town anticipates receiving a significant grant through the State Transportation Improvement Program (STIP) and funding the balance of the project by utilizing the Section 108 Loan Program afforded by the Federal government under the CDBG program and outside sources related to the Two Brookline Place redevelopment.
- Upgrade and maintenance of our waste water system (\$3.6 million), which will be borne by the water and sewer rates rather than the tax levy.

As previously detailed, enrollment in the PreK-8<sup>th</sup> grade elementary schools has increased significantly, placing pressure on both operating and capital budgets. In the current 2012-2013 school year, there are 46 (23%) more homerooms and 1,186 (31%) more students 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 (\$3 million since FY 2008)

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 healthcare cost of past, present and future Town / School retirees who have worked a minimum of 10 years for the Town. 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, 2012, the Town has a balance of \$12.8 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, 2012 includes a liability of \$37.9 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. Finally, the Town will have the opportunity to determine whether it should use the budgetary capacity currently allocated to the unfunded pension liability when that obligation is fully funded in 2030. 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. The next actuary analysis for the fiscal year ending June 30, 2012 will be completed by December 2012. 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 76% 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, 2012 for the funds maintained by the Town's Treasurer are as follows:

General Fund - Unencumbered	\$	24,514,886
General Fund - Encumbered		1,210,629
Reserved for :		
Special Revenue (Grant) Funds		13,730,956
Bond Financed Capital Projects		6,317,784
Revenue Financed Capital Projects		12,215,700
Enterprise Funds		8,449,730
Trust and Agency Funds		<u>21,831,284</u>
	\$	<u>88,270,969</u>

Of the \$88.3 million in total cash and investments, more than \$63.7 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 \$24.5 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 full time equivalent employment since FY 2006 (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 varied from 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 Town's policies at the time 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 FY 2012, 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 FY 2012 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 previously 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. The increase in the fund balance shown on these financial statements is proof of the wisdom of the adoption of these changes.

Water/Sewer Rate Structure

During the rate setting process for the FY 2010 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 had to be raised in the following fiscal year's rates.

In June, 2011 the Board of Selectmen adopted a revamped rate structure for FY 2012 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:

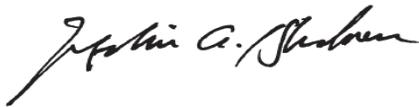
- minimize revenue volatility
- equitable cost distribution among customers
- comply with DEP and regulatory standards
- charge Town and School departments for their use

The impact this new rate structure has on various types of property and residents was analyzed during the fiscal year and proved to have caused very little unforeseen financial hardship on users. As part of the FY 2013 rate setting process, the Selectmen adopted a 20% elderly exemption program for ratepayers age 65 and older that meet certain eligibility criteria. (The criteria are the same as the so-called Clause 17D and 41C property tax exemptions.) The Water and Sewer Enterprise Fund experienced a positive operating experience in FY 2012 even while realizing a small reduction in consumption, evidence of the prudent decision to develop a new rate structure that minimizes revenue volatility.

**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

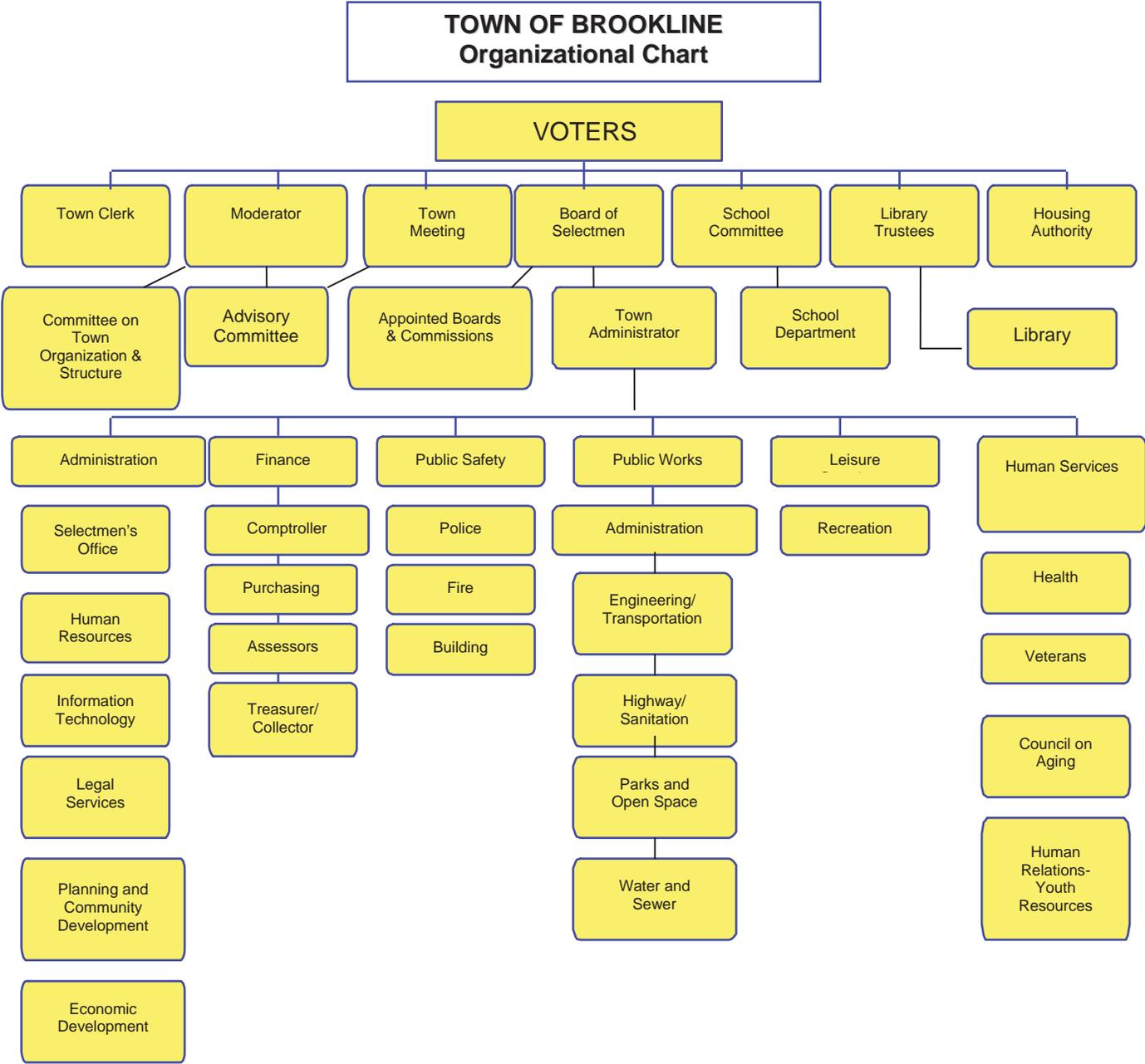


Stephen Cirillo  
Finance Director



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, 2012 (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 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, 2012 (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 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 12, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financials statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 12, 2012

***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, 2012. 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.

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 Postemployment Benefits (OPEB), 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 \$178.7 million at the close of fiscal year 2012.

For the governmental activities, net assets of \$155.3 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. \$29.4 million represents resources that are subject to external restrictions on expenditures. The Town has \$31.9 million of unrestricted net assets without considering the recorded liability for a portion of the postemployment healthcare obligation. That liability (\$37.9 million) is long-term in nature, and will not be funded from the \$31.9 million of unrestricted net assets at June 30, 2012 (see the discussion of Other Postemployment Benefits in the Transmittal Letter section of this report).

### 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 \$178.7 million at the close of fiscal year 2012.

	<u>FY 2012</u> <u>Governmental</u> <u>Activities</u>	<u>FY 2011</u> <u>Governmental</u> <u>Activities</u>	<u>FY 2010</u> <u>Governmental</u> <u>Activities</u>
<b>Assets:</b>			
Current:			
Cash and cash equivalents.....	\$ 74,363,944	\$ 68,422,755	\$ 62,792,008
Investments.....	5,348,981	5,361,725	11,048,635
Receivables, net of allowance for uncollectibles.....	13,708,378	16,697,618	12,588,030
Other current assets.....	466,879	585,500	529,691
Noncurrent assets (excluding capital).....	3,859,000	4,411,000	5,404,000
Capital assets.....	<u>212,749,758</u>	<u>193,261,772</u>	<u>190,228,444</u>
<b>Total assets.....</b>	<b><u>310,496,940</u></b>	<b><u>288,740,370</u></b>	<b><u>282,590,808</u></b>
<b>Liabilities:</b>			
Current (excluding debt):			
Warrants payable.....	6,153,217	3,071,158	3,262,614
Tax refunds payable.....	2,813,606	2,129,000	2,370,000
Compensated absences.....	5,429,223	5,905,415	5,736,797
Other current liabilities.....	4,046,213	4,029,748	4,192,953
Noncurrent (excluding debt):			
Landfill closure.....	4,700,000	4,505,000	5,207,000
Compensated absences.....	3,697,486	3,687,093	3,694,576
Postemployment benefits.....	37,868,889	33,427,338	36,158,149
Other noncurrent liabilities.....	1,302,108	737,250	702,000
Current debt.....	7,404,634	7,931,238	7,105,400
Noncurrent debt.....	<u>58,370,676</u>	<u>54,479,809</u>	<u>51,546,047</u>
<b>Total liabilities.....</b>	<b><u>131,786,052</u></b>	<b><u>119,903,049</u></b>	<b><u>119,975,536</u></b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	155,268,317	143,978,503	138,378,461
Restricted.....	29,389,324	30,469,132	29,607,081
Unrestricted.....	<u>(5,946,753)</u>	<u>(5,610,314)</u>	<u>(5,926,270)</u>
<b>Total net assets.....</b>	<b><u>\$ 178,710,888</u></b>	<b><u>\$ 168,837,321</u></b>	<b><u>\$ 162,059,272</u></b>

Net assets from the Town's governmental activities increased by \$9.9 million during fiscal year 2012. Key elements of the change are as follows:

	<b><i>FY 2012</i></b>	<b><i>FY 2011</i></b>	<b><i>FY 2010</i></b>
	<b><i>Governmental</i></b>	<b><i>Governmental</i></b>	<b><i>Governmental</i></b>
	<b><i>Activities</i></b>	<b><i>Activities</i></b>	<b><i>Activities</i></b>
<b>Program revenues:</b>			
Charges for services.....	\$ 27,302,874	\$ 25,178,204	\$ 23,499,200
Operating grants and contributions.....	34,569,633	37,112,719	35,836,959
Capital grants and contributions.....	6,537,959	1,082,836	2,981,790
<b>General Revenues:</b>			
Real estate and personal property taxes.....	162,093,475	156,404,746	151,463,056
Motor vehicle and other excise taxes.....	4,852,403	5,227,536	4,760,227
Nonrestricted grants and contributions.....	5,096,737	5,529,816	5,828,099
Unrestricted investment income.....	500,491	1,380,045	1,910,814
Gain/(loss) on sale of capital assets.....	(361,939)	1,500,417	(19,317)
Other revenues.....	4,620,395	3,796,953	3,179,778
<b>Total revenues.....</b>	<b>245,212,028</b>	<b>237,213,272</b>	<b>229,440,606</b>
<b>Expenses:</b>			
General government.....	18,767,777	18,536,862	21,087,675
Public safety.....	51,708,895	48,430,670	51,016,383
Education.....	127,421,468	120,075,185	123,451,076
Public works.....	21,655,063	21,186,278	22,816,763
Community and economic development.....	1,613,147	1,667,407	2,056,011
Human services.....	4,575,041	4,253,740	4,718,964
Leisure services.....	9,655,798	8,651,369	9,227,021
Interest.....	1,900,490	2,223,231	2,715,031
<b>Total expenses.....</b>	<b>237,297,679</b>	<b>225,024,742</b>	<b>237,088,924</b>
<b>Transfers In(Out).....</b>	<b>1,959,218</b>	<b>1,809,342</b>	<b>1,975,109</b>
<b>Change in net assets.....</b>	<b>\$ 9,873,567</b>	<b>\$ 13,997,872</b>	<b>\$ (5,673,209)</b>

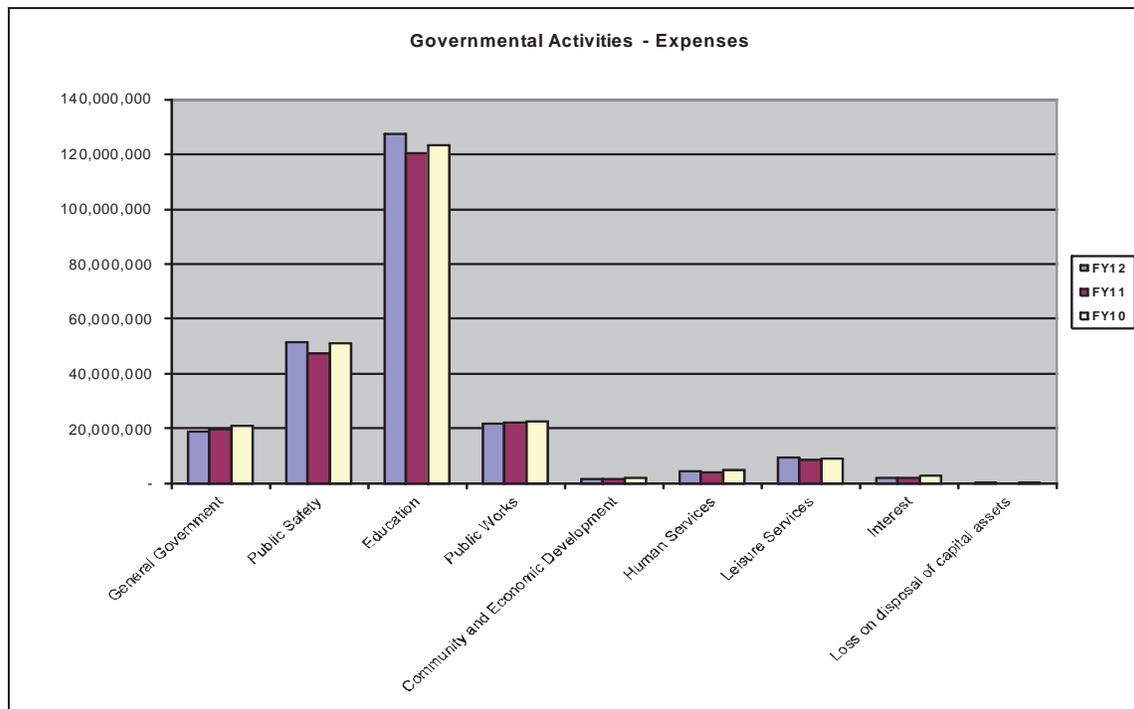
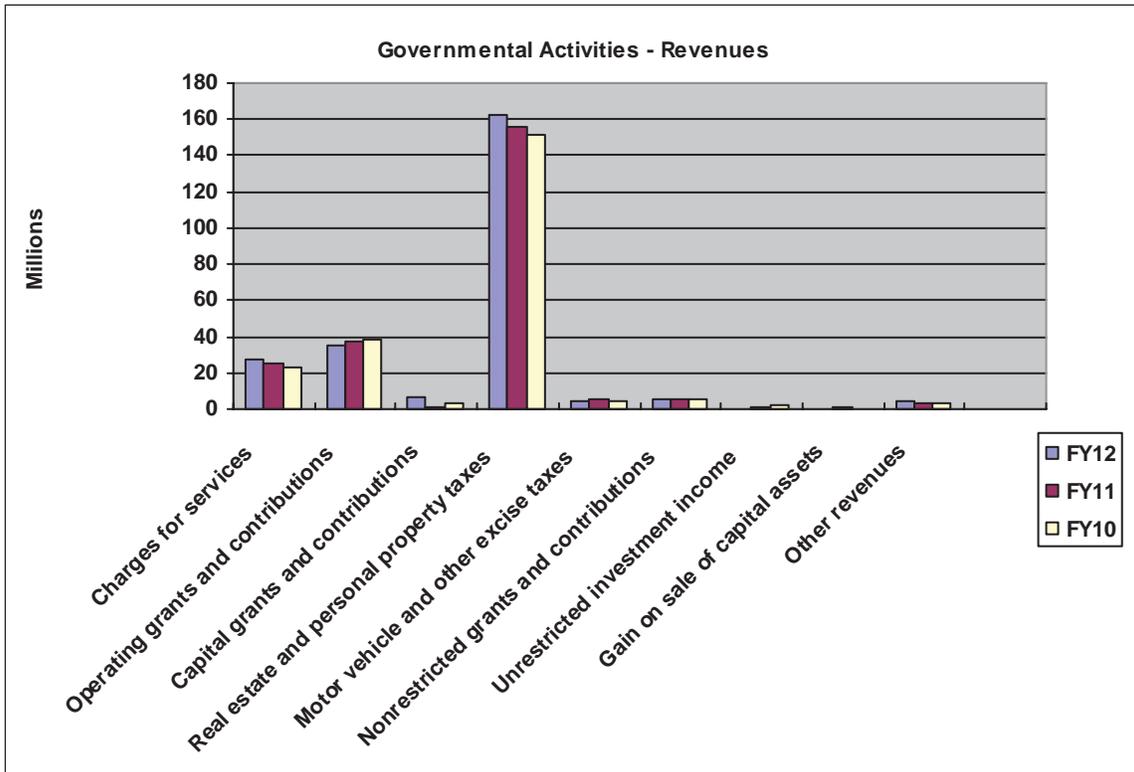
The increase in net assets is due to several factors.

Net assets increased by \$6.1 million from capital grants related to the MSBA Reimbursement of various school construction projects, the Town's ability to fund approximately \$5.3 million of capital additions from current revenues, the recognition of a \$400 thousand capital grant for the acquisition and future construction of a park at Fisher Hill, a \$466 thousand decrease in the liability for compensated absences and better than expected budgetary results.

These increases were offset by the increase 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 2012 the Town, based on its actuarial valuation, reported an accrual of \$37.9 million for its portion of the liability that was not paid. This represents an increase of \$4.4 million over the prior fiscal year.

The governmental expenses totaled \$237.3 million of which \$68.4 million (28.8%) was directly supported by program revenues consisting of charges for services, operating grants and contributions and capital grants. General revenues totaled \$176.8 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 2012 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 \$66.6 million, of which \$26.0 million is for the general fund, \$779 thousand is for the Runkle School Renovation fund, \$12.0 million is for the capital articles fund, (\$183) thousand is for the Chapter 90 Highway fund and \$28.0 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 of the general fund was \$24.8 million, while total fund balance was \$26.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11.8% of total general fund expenditures, while total fund balance represents 12.3% of that same amount

Fund balance of the General Fund increased by \$2.5 million during fiscal year 2012. This is primarily due to the budgetary surplus of \$3.1 million offset by an increase in tax refunds payable of \$685,000.

The Runkle School Renovation Fund is used to account for financial resources for the renovation of the Runkle School building. At the end of the current fiscal year the fund has a fund balance of \$779 thousand.

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 \$12.0 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 deficit of (\$183) thousand. This represents projects that are underway but reimbursement requests have not been submitted.

### **General Fund Budgetary Highlights**

There was approximately a \$481 thousand increase between the original and final budget. This change primarily represented appropriation increases for transfers out of \$400 thousand for the Pierce School Project. The Town has elected to carryforward encumbrances and appropriations totaling \$1.2 million.

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

	<u>FY 2012</u> <u>Water &amp; Sewer</u> <u>Activities</u>	<u>FY 2011</u> <u>Water &amp; Sewer</u> <u>Activities</u>	<u>FY 2010</u> <u>Water &amp; Sewer</u> <u>Activities</u>
<b>Assets:</b>			
Current:			
Cash and short-term investments.....	\$ 7,866,750	\$ 5,666,909	\$ 2,658,965
Receivables, net of allowance for uncollectibles..	5,332,668	4,959,144	5,000,105
Other current assets.....	15,466	15,217	13,943
Capital assets.....	51,382,515	41,291,585	35,857,042
<b>Total assets.....</b>	<b>64,597,399</b>	<b>51,932,855</b>	<b>43,530,055</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	1,451,772	2,028,958	400,701
Noncurrent liabilities (excluding debt).....	1,601,552	1,343,243	1,442,236
Current debt.....	2,017,386	2,078,761	2,192,101
Noncurrent debt.....	9,698,405	11,600,191	12,678,951
<b>Total liabilities.....</b>	<b>14,769,115</b>	<b>17,051,153</b>	<b>16,713,989</b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	39,666,724	27,612,633	20,985,990
Unrestricted.....	10,161,560	7,269,069	5,830,076
<b>Total net assets.....</b>	<b>49,828,284</b>	<b>34,881,702</b>	<b>26,816,066</b>
<b>Program revenues:</b>			
Charges for services.....	25,284,535	24,190,848	22,545,102
Operating grants and contributions.....	-	34,620	-
Capital grants and contributions.....	12,553,698	3,937,252	-
<b>General Revenues:</b>			
Unrestricted investment income.....	22,748	2,789	-
Gain/(loss) on disposal of capital assets.....	(2,901)	(133,145)	(12,394)
<b>Total revenues.....</b>	<b>37,858,080</b>	<b>28,032,364</b>	<b>22,532,708</b>
<b>Expenses:</b>			
Water and sewer.....	21,770,935	22,039,432	20,505,232
<b>Transfers In/(Out).....</b>	<b>(1,820,366)</b>	<b>(1,643,181)</b>	<b>(1,804,815)</b>
<b>Change in net assets.....</b>	<b>\$ 14,266,779</b>	<b>\$ 4,349,751</b>	<b>\$ 222,661</b>

The water and sewer enterprise net assets increased by \$14.3 million during the current fiscal year. This was primarily attributable to the receipt of a capital grant of \$12.6 million from the Massachusetts Water Resource Authority and a slight increase in user charges.

	<u>FY 2012</u> <u>Golf Course</u> <u>Activities</u>	<u>FY 2011</u> <u>Golf Course</u> <u>Activities</u>	<u>FY 2010</u> <u>Golf Course</u> <u>Activities</u>
<b>Assets:</b>			
Current:			
Cash and short-term investments.....	\$ 530,732	\$ 508,608	\$ 239,401
Other current assets.....	73,651	7,192	16,689
Capital assets.....	2,165,515	1,999,332	2,145,528
<b>Total assets.....</b>	<b>2,769,898</b>	<b>2,515,132</b>	<b>2,401,618</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	396,532	340,274	392,815
Noncurrent liabilities (excluding debt).....	48,734	50,287	57,226
Current debt.....	155,000	145,000	155,000
Noncurrent debt.....	899,000	935,000	705,000
<b>Total liabilities.....</b>	<b>1,499,266</b>	<b>1,470,561</b>	<b>1,310,041</b>
<b>Net Assets:</b>			
Capital assets net of related debt.....	1,111,515	919,332	1,285,528
Unrestricted.....	159,117	125,239	(193,951)
<b>Total net assets.....</b>	<b>1,270,632</b>	<b>1,044,571</b>	<b>1,091,577</b>
<b>Program revenues:</b>			
Charges for services.....	1,190,422	1,122,854	1,129,605
<b>General Revenues:</b>			
Unrestricted investment income.....	8,522	516	3,369
Gain/loss on disposal of capital assets.....	-	(107,742)	-
<b>Total revenues.....</b>	<b>1,198,944</b>	<b>1,015,628</b>	<b>1,132,974</b>
<b>Expenses:</b>			
Golf.....	834,031	896,473	954,220
<b>Transfers In/(Out).....</b>	<b>(138,852)</b>	<b>(166,161)</b>	<b>(170,294)</b>
<b>Change in net assets.....</b>	<b>\$ 226,061</b>	<b>\$ (47,006)</b>	<b>\$ 8,460</b>

The golf enterprise net assets increased by \$226 thousand during the current fiscal year. The increase 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 (FY 2003 – FY 2012), the Town has authorized expenditures of more than \$169.5 million, for an average of \$16.9 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 FY 2012 – FY 2017 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 plan to balance the FY 2010 budget was to reduce the 5.5% funding level to 5%, freeing-up \$917,000 for the Operating Budget. Those funds were used to reduce the level of cuts in the Operating Budget. The FY 2012 – FY 2017 CIP completed the plan to phase back-up to 5.5%, after reaching 5.25% in FY 2011. The return to the 5.5% level was critical, as the amount of projected debt service in the out-years requires that level of funding for projects such as the Devotion School.

In addition to the 5.5% financing, Free Cash and State/Federal grants are the other key components of the overall financing strategy of the CIP. The Town's Free Cash policy dedicates this revenue source to the CIP after funding various strategic reserves. In summary, it states that after being used to help fund various reserves and protect fund balance levels, the balance of Free Cash is dedicated to the CIP. This important funding source allows for the expansion of the pay-as-you-go component of the CIP. Without Free Cash, the Town would be unable to fund many of the projects being recommended. The Town's certified Free Cash for the fiscal year ending June 30, 2010 was \$7.1 million. After funding strategic reserves to the levels called for in the Town's Reserve policies, and after leaving approximately \$1.7 million unappropriated to address an unreserved fund balance issue, \$4.4 million of additional pay-as-you-go capacity was made available to the CIP for FY 2012. 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.

State/Federal grants total \$38.3 million over the six-year period. Of this amount, \$26.3 million represents the potential State share of the Devotion School Renovation project. The CIP assumed 35% funding by the Massachusetts School Building Authority (MSBA) for the Devotion School project; the Town must continue to work with the MSBA to see if funding will be awarded. 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 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.

Another key CIP financing policy is that the Water and Sewer Enterprise Fund and the Golf Course Enterprise Fund cover 100% of their debt service. When additional capital work to the water and sewer infrastructure or to the golf course is requested, the impact debt service has on those enterprise funds is taken into consideration. Since they are both 100% cost recovery funds, any growth in debt service may well necessitate increases in fees. Therefore, the decision to authorize additional debt is made carefully.

There were a number of challenges presented during the development of the CIP that made balancing difficult, including the Devotion School and new projects (fire station renovations, the maintenance shed at the golf course, and the Human Resources Information System), all of which placed pressure on each of the out-years of the CIP, in some cases requiring other projects to be pushed backward. The biggest capital challenge facing the Town is solving the space needs for the K-8 schools, while at the same time maintaining the commitment to basic infrastructure needs such as streets, sidewalks, and parks/playgrounds. Since 2005, enrollment in these grades has increased more than 20%, placing great pressure on the buildings and the ability to find classroom space for the students. This issue began to be addressed in FY 2008, when \$400,000 was appropriated to allow for the conversion of spaces intended for other purposes into regular classrooms. In FY 2010, another \$400,000 was appropriated, followed by another \$530,000 in FY 2011.

This \$1.3 million represented just one phase of the plan to increase classroom space to address the burgeoning enrollment. The second step was the approval of a renovation/addition project for the Runkle School. This \$29.1 million project, 41.58% of which was funded by the Massachusetts School Building Authority (MSBA), made Runkle a three-section school for all grades. The third component of the plan was the approval to add new permanent classrooms at the Heath School, which cost \$8.5 million, with the State paying for 39.93%, or \$3.25 million. This project made Heath a three-section school for all grades. The final part of the plan to address enrollment growth in the elementary schools is the Devotion School project. After that, funding projects at the High School to build out additional space will be required, as once the students currently in sixth grade and earlier grades make it to the High School, the school will go from less than 1,800 students to more than 2,200.

All of this is being addressed while at the same time continuing to address on-going infrastructure improvements including streets, sidewalks, parks/playgrounds, and water/sewer systems. 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 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 2012, together with outstanding encumbrances and available budget balances, for both Debt and Revenue Funded Capital Projects.

	<u>All Capital Improvement Projects</u>			<u>Revenue Financed Projects</u>			<u>Debt Financed Projects</u>		
	Expended in	Encumbrances	Available	Expended in	Encumbrances	Available	Expended in	Encumbrances	Available
	<u>Fiscal 2012</u>		<u>Budget</u>	<u>Fiscal 2012</u>		<u>Budget</u>	<u>Fiscal 2012</u>		<u>Budget</u>
General Government Capital Projects									
General Government Projects	26,486	12,676	3,594	26,486	12,676	3,594	-	-	-
Planning Projects	24,262	13,258	50,000	24,262	13,258	50,000	-	-	-
Technology Projects	355,956	4,575	46,471	355,956	4,575	46,471	-	-	-
Building & Public Safety Projects									
General Town Building Projects	1,782,422	207,360	1,950,406	1,427,017	127,592	744,036	355,405	79,768	1,206,370
Public Safety Building & Equipment Projects	74,210	5,974	621,343	74,210	5,974	621,343	-	-	-
Library Building Projects	88,878	46,339	-	88,878	46,339	-	-	-	-
Recreation Building Projects	80,000	-	-	80,000	-	-	-	-	-
DPW Building Projects	16,000	22,000	2,000	16,000	22,000	2,000	-	-	-
School Building Projects	19,985,632	10,592,988	4,775,451	556,545	138,043	1,524,181	19,429,087	10,454,945	3,251,270
DPW Projects									
Landfill Related Projects	20,682	89,659	890,283	18,207	87,184	848,444	2,475	2,475	41,839
Highway -Traffic Related Projects	1,789,147	1,278,024	4,615,365	1,789,147	1,278,024	3,215,365	-	-	1,400,000
Park Related Projects	978,507	942,933	3,918,651	743,618	732,648	2,583,628	234,889	210,285	1,335,023
Recreation-Library Projects									
Library Projects	27,029	6,780	63,942	27,029	6,780	63,942	-	-	-
DPW Enterprise Related Projects	633,766	342,642	5,977,561	7,632	17,810	5,321	626,134	324,832	5,972,240
Golf Enterprise Projects	192,739	9,186	1,084,966	-	-	-	192,739	9,186	1,084,966
GRAND TOTAL	26,075,716	13,574,394	24,000,033	5,234,987	2,492,903	9,708,325	20,840,729	11,081,491	14,291,708

### **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, 2012 amount to \$266.3 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 \$29.7 million, including a \$19.5 million increase for governmental activities and a \$10.3 million 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 \$21.8 million was spent on school construction and renovations.
- ❖ Approximately \$13.8 million was spent on roads, sidewalks, wastewater, and other related infrastructure.
- ❖ Approximately \$3.1 million was spent on building renovations and improvements.
- ❖ Approximately \$1.4 million was spent on machinery and equipment.

Please see Note 4 for further capital asset information.

<b>Town of Brookline's Capital Assets</b>								
<b>(Net of Depreciation)</b>								
	<b>Governmental</b>		<b>Business –Type</b>				<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>					
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Land</b>	874,873	874,873	-	-	874,873	874,873		
<b>Construction in Progress</b>	27,178,194	5,387,090	-	-	27,178,194	5,387,090		
<b>Land Improvements</b>	12,036,528	12,189,556	1,086,533	946,034	13,123,061	13,135,590		
<b>Buildings</b>	142,801,684	145,477,003	2,581,822	2,676,698	145,383,506	148,153,701		
<b>Machinery and Equipment</b>	10,830,938	11,562,467	672,596	694,321	11,503,534	12,256,788		
<b>Infrastructure</b>	19,027,541	17,770,783	49,207,079	38,973,864	68,234,620	56,744,647		
<b>Total</b>	<u>212,749,758</u>	<u>193,261,772</u>	<u>53,548,030</u>	<u>43,290,917</u>	<u>266,297,788</u>	<u>236,552,689</u>		

**Long-term Debt.** At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$78,545,101, of which \$65,775,310 is governmental debt and \$12,769,791 in business type debt. This entire 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 2012, the Town retired long term debt of \$10,019,998 and refunded \$5,550,000.

On March 6 of the current fiscal year, the Town issued \$17,950,000 of general obligation bonds which was made up of a \$4,395,500 advance refunding, a \$909,500 current refunding and \$12,645,000 of new debt. Please refer to footnote 7 for more information.

Please see notes 6 and 7 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 Schools under this program. Through the end of fiscal year 2012, the Town has recorded capital grant revenue totaling approximately \$5,534,000 and \$1,111,000 respectfully, from the MSBA which is equal to 40% and 34.5% of approved construction costs incurred to date. The Town received \$4,400,000 of reimbursements related to the Runkle School and \$1,000,000 related to the Heath School in fiscal 2012.

### Cash and Investments

At June 30, 2012, the Town had recorded a Cash and Investments balance of \$100,980,753. Additional adjustments for accounts not maintained by the Treasurer, but included in overall financial statement cash, were Library Cash of \$242,251; Investment accounts maintained by the Trustees of the Brookline Public Library of \$4,035,574; and Cash and Investment accounts maintained by the Brookline Retirement System of \$1,209,111 and \$202,215,752, respectively. This resulted in total Cash and Investments of \$308,683,441 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.brooklinema.gov> .

# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 74,363,944	\$ 8,397,482	\$ 82,761,426
Investments.....	5,348,981	-	5,348,981
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,742,551	-	1,742,551
Tax liens.....	1,575,065	-	1,575,065
Motor vehicle excise taxes.....	97,527	-	97,527
User fees.....	130,565	-	130,565
Water and sewer fees.....	-	5,332,668	5,332,668
Departmental and other.....	3,270,812	-	3,270,812
Intergovernmental.....	6,780,836	-	6,780,836
Loans.....	111,022	-	111,022
Internal balances.....	250,000	(250,000)	-
Prepaid expenses.....	216,879	89,117	305,996
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	3,859,000	-	3,859,000
Capital assets, nondepreciable.....	28,053,067	-	28,053,067
Capital assets, net of accumulated depreciation.....	184,696,691	53,548,030	238,244,721
<b>TOTAL ASSETS.....</b>	<b>310,496,940</b>	<b>67,117,297</b>	<b>377,614,237</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	6,153,217	1,217,606	7,370,823
Accrued liabilities.....	135,482	-	135,482
Accrued payroll.....	1,075,220	-	1,075,220
Tax refunds payable.....	2,813,606	-	2,813,606
Accrued interest.....	595,320	116,091	711,411
Abandoned property.....	188,484	-	188,484
Other liabilities.....	941,184	7,404	948,588
Deferred revenue.....	610,644	-	610,644
Liabilities due depositors.....	6,179	-	6,179
Landfill closure.....	170,000	-	170,000
Compensated absences.....	5,429,223	250,240	5,679,463
Workers' compensation.....	248,750	-	248,750
Unamortized premium on bonds payable.....	74,950	6,963	81,913
Bonds payable.....	7,404,634	2,172,386	9,577,020
<b>NONCURRENT:</b>			
Landfill closure.....	4,700,000	-	4,700,000
Compensated absences.....	3,697,486	93,437	3,790,923
Workers' compensation.....	746,250	-	746,250
Postemployment benefits.....	37,868,889	1,460,208	39,329,097
Unamortized premium on bonds payable.....	555,858	96,641	652,499
Bonds payable.....	58,370,676	10,597,405	68,968,081
<b>TOTAL LIABILITIES.....</b>	<b>131,786,052</b>	<b>16,018,381</b>	<b>147,804,433</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	155,268,317	40,778,239	196,046,556
Restricted for:			
Loans.....	111,022	-	111,022
Permanent funds:			
Expendable.....	4,928,718	-	4,928,718
Nonexpendable.....	1,336,556	-	1,336,556
Other purposes.....	23,013,028	-	23,013,028
Unrestricted.....	(5,946,753)	10,320,677	4,373,924
<b>TOTAL NET ASSETS.....</b>	<b>\$ 178,710,888</b>	<b>\$ 51,098,916</b>	<b>\$ 229,809,804</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 18,767,777	\$ 6,323,222	\$ 921,355	\$ -	\$ (11,523,200)
Public safety.....	51,708,895	7,766,584	323,001	-	(43,619,310)
Education.....	127,421,468	7,103,024	30,043,346	6,137,959	(84,137,139)
Public works.....	21,655,063	3,548,885	975,487	-	(17,130,691)
Community and economic development.....	1,613,147	-	1,469,407	-	(143,740)
Human services.....	4,575,041	36,859	490,235	-	(4,047,947)
Leisure services.....	9,655,798	2,524,300	136,385	400,000	(6,595,113)
Interest.....	1,900,490	-	210,417	-	(1,690,073)
Total Governmental Activities.....	<u>237,297,679</u>	<u>27,302,874</u>	<u>34,569,633</u>	<u>6,537,959</u>	<u>(168,887,213)</u>
<i>Business-Type Activities:</i>					
Golf.....	834,031	1,190,422	-	-	356,391
Water and sewer.....	<u>21,770,935</u>	<u>25,284,535</u>	<u>-</u>	<u>12,553,698</u>	<u>16,067,298</u>
Total Business-Type Activities.....	<u>22,604,966</u>	<u>26,474,957</u>	<u>-</u>	<u>12,553,698</u>	<u>16,423,689</u>
Total Primary Government.....	<u>\$ 259,902,645</u>	<u>\$ 53,777,831</u>	<u>\$ 34,569,633</u>	<u>\$ 19,091,657</u>	<u>\$ (152,463,524)</u>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(168,887,213)</b>	\$ <b>16,423,689</b>	\$ <b>(152,463,524)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	162,093,475	-	162,093,475
Motor vehicle and other excise taxes.....	4,852,403	-	4,852,403
Hotel/motel tax.....	1,364,218	-	1,364,218
Local meals tax.....	1,003,402	-	1,003,402
Penalties and interest on taxes.....	565,628	-	565,628
Payments in lieu of taxes.....	1,022,790	-	1,022,790
Grants and contributions not restricted to specific programs.....	5,096,737	-	5,096,737
Unrestricted investment income.....	500,491	31,270	531,761
Gain (loss) on disposal of capital assets.....	(361,939)	(2,901)	(364,840)
Miscellaneous.....	664,357	-	664,357
<i>Transfers, net</i> .....	<u>1,959,218</u>	<u>(1,959,218)</u>	<u>-</u>
Total general revenues and transfers.....	<u>178,760,780</u>	<u>(1,930,849)</u>	<u>176,829,931</u>
Change in net assets.....	9,873,567	14,492,840	24,366,407
<i>Net Assets:</i>			
Beginning of year (as revised).....	<u>168,837,321</u>	<u>36,606,076</u>	<u>205,443,397</u>
End of year.....	\$ <u><u>178,710,888</u></u>	\$ <u><u>51,098,916</u></u>	\$ <u><u>229,809,804</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2012

<b>ASSETS</b>	<u>General</u>	<u>Runkle School Renovation Fund</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.....	\$ 31,409,871	\$ 2,029,033	\$ 12,213,582	\$ -	\$ 24,556,110	\$ 70,208,596
Investments.....	-	-	-	-	5,348,981	5,348,981
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	1,742,551	-	-	-	-	1,742,551
Tax liens.....	1,575,065	-	-	-	-	1,575,065
Motor vehicle excise taxes.....	97,527	-	-	-	-	97,527
User fees.....	130,565	-	-	-	-	130,565
Departmental and other.....	3,219,965	-	-	-	50,847	3,270,812
Intergovernmental.....	4,212,436	1,311,000	-	3,094,181	2,022,219	10,639,836
Loans.....	-	-	-	-	111,022	111,022
Due from other funds.....	633,446	-	-	-	-	633,446
Prepaid expenses.....	212,211	-	-	-	4,668	216,879
<b>TOTAL ASSETS.....</b>	<b>\$ 43,233,637</b>	<b>\$ 3,340,033</b>	<b>\$ 12,213,582</b>	<b>\$ 3,094,181</b>	<b>\$ 32,093,847</b>	<b>\$ 93,975,280</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Warrants payable.....	\$ 1,902,830	\$ 2,516,122	\$ 194,717	\$ 80,014	\$ 1,451,294	\$ 6,144,977
Accrued liabilities.....	43,249	45,303	2,383	-	44,547	135,482
Accrued payroll.....	1,034,378	-	-	-	40,842	1,075,220
Tax refunds payable.....	2,813,606	-	-	-	-	2,813,606
Liabilities due depositors.....	6,179	-	-	-	-	6,179
Abandoned property.....	182,487	-	-	-	5,997	188,484
Other liabilities.....	907,280	-	-	-	33,904	941,184
Deferred revenues.....	10,331,952	-	-	2,813,987	2,531,293	15,677,232
Due to other funds.....	-	-	-	383,446	-	383,446
<b>TOTAL LIABILITIES.....</b>	<b>17,221,961</b>	<b>2,561,425</b>	<b>197,100</b>	<b>3,277,447</b>	<b>4,107,877</b>	<b>27,365,810</b>
<b>FUND BALANCES:</b>						
Nonspendable.....	-	-	-	-	1,336,556	1,336,556
Restricted.....	-	-	-	-	23,390,376	23,390,376
Committed.....	-	778,608	12,016,482	-	3,259,038	16,054,128
Assigned.....	1,210,629	-	-	-	-	1,210,629
Unassigned.....	24,801,047	-	-	(183,266)	-	24,617,781
<b>TOTAL FUND BALANCES.....</b>	<b>26,011,676</b>	<b>778,608</b>	<b>12,016,482</b>	<b>(183,266)</b>	<b>27,985,970</b>	<b>66,609,470</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 43,233,637</b>	<b>\$ 3,340,033</b>	<b>\$ 12,213,582</b>	<b>\$ 3,094,181</b>	<b>\$ 32,093,847</b>	<b>\$ 93,975,280</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, 2012

Total governmental fund balances.....		\$ 66,609,470
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		212,749,758
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		15,066,588
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.....		3,152,108
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(595,320)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(65,775,310)	
Landfill closure.....	(4,870,000)	
Unamortized premium on bonds payable.....	(630,808)	
Postemployment benefits.....	(37,868,889)	
Compensated absences.....	<u>(9,126,709)</u>	
Net effect of reporting long-term liabilities.....		<u>(118,271,716)</u>
Net assets of governmental activities.....		\$ <u>178,710,888</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	Runkle School Renovation	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.....	\$ 162,270,287	\$ -	\$ -	\$ -	\$ -	\$ 162,270,287
Motor vehicle and other excise taxes.....	4,996,690	-	-	-	-	4,996,690
Hotel/motel tax.....	1,364,218	-	-	-	-	1,364,218
Local meals tax.....	1,003,402	-	-	-	-	1,003,402
Charges for services.....	4,790,393	-	-	-	-	4,790,393
Penalties and interest on taxes.....	565,628	-	-	-	-	565,628
Payments in lieu of taxes.....	1,022,790	-	-	-	-	1,022,790
Licenses and permits.....	3,421,805	-	-	-	-	3,421,805
Fines and forfeitures.....	4,333,279	-	-	-	-	4,333,279
Intergovernmental.....	28,803,554	5,747,337	116,140	717,680	11,262,270	46,646,981
Departmental and other.....	1,367,423	-	-	-	13,678,146	15,045,569
Contributions.....	-	-	-	-	965,999	965,999
Investment income.....	395,767	-	-	-	96,093	491,860
<b>TOTAL REVENUES.....</b>	<b>214,335,236</b>	<b>5,747,337</b>	<b>116,140</b>	<b>717,680</b>	<b>26,002,508</b>	<b>246,918,901</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	8,052,265	-	1,028,563	-	1,276,138	10,356,966
Public safety.....	34,375,437	-	149,205	-	480,942	35,005,584
Education.....	75,263,392	16,900,575	1,486,616	-	19,281,212	112,931,795
Public works.....	13,292,836	-	2,418,112	902,580	297,436	16,910,964
Community and economic development.....	-	-	-	-	1,613,147	1,613,147
Human services.....	2,303,134	-	-	-	1,125,997	3,429,131
Leisure services.....	4,622,224	-	214,500	-	2,788,939	7,625,663
Pension benefits.....	30,190,262	-	-	-	-	30,190,262
Fringe benefits.....	27,116,815	-	-	-	-	27,116,815
State and county charges.....	5,654,190	-	-	-	-	5,654,190
Debt service:						
Principal.....	7,931,237	-	-	-	-	7,931,237
Interest.....	2,119,798	-	-	-	-	2,119,798
<b>TOTAL EXPENDITURES.....</b>	<b>210,921,590</b>	<b>16,900,575</b>	<b>5,296,996</b>	<b>902,580</b>	<b>26,863,811</b>	<b>260,885,552</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>3,413,646</b>	<b>(11,153,238)</b>	<b>(5,180,856)</b>	<b>(184,900)</b>	<b>(861,303)</b>	<b>(13,966,651)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Proceeds from bonds and notes.....	-	5,330,000	-	-	6,190,000	11,520,000
Proceeds from refunding bonds.....	4,375,500	-	-	-	-	4,375,500
Premium from issuance of bonds, net of expenditures.....	630,808	-	-	-	-	630,808
Premium from issuance of refunding bonds.....	440,363	-	-	-	-	440,363
Payments to refunded bond escrow agent.....	(4,815,863)	-	-	-	-	(4,815,863)
Sale of capital assets.....	3,668	-	-	-	-	3,668
Transfers in.....	6,196,316	-	7,401,546	-	355,264	13,953,126
Transfers out.....	(7,756,810)	-	(49,631)	-	(4,187,467)	(11,993,908)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(926,018)</b>	<b>5,330,000</b>	<b>7,351,915</b>	<b>-</b>	<b>2,357,797</b>	<b>14,113,694</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>2,487,628</b>	<b>(5,823,238)</b>	<b>2,171,059</b>	<b>(184,900)</b>	<b>1,496,494</b>	<b>147,043</b>
<b>FUND BALANCES AT BEGINNING OF YEAR (AS REVISED).....</b>	<b>23,524,048</b>	<b>6,601,846</b>	<b>9,845,423</b>	<b>1,634</b>	<b>26,489,476</b>	<b>66,462,427</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 26,011,676</b>	<b>\$ 778,608</b>	<b>\$ 12,016,482</b>	<b>\$ (183,266)</b>	<b>\$ 27,985,970</b>	<b>\$ 66,609,470</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, 2012

Net change in fund balances - total governmental funds.....		\$ 147,043
<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.....	29,504,658	
Depreciation expense.....	<u>(9,651,065)</u>	
Net effect of reporting capital assets.....		19,853,593
<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>		
		(365,607)
<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>		
		(1,353,565)
<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.....	(11,520,000)	
Proceeds from refunding bonds .....	(4,375,500)	
Premium from issuance of bonds.....	(630,808)	
Premium from issuance of refunding bonds.....	(440,363)	
Payments to refunding bond escrow agent.....	4,815,863	
Deferred charges on refunding.....	224,500	
Debt service principal payments.....	<u>7,931,237</u>	
Net effect of reporting long-term debt.....		(3,995,071)
<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.....	465,799	
Net change in accrued interest on long-term debt.....	(5,192)	
Net change in postemployment benefit accrual.....	(4,441,551)	
Net change in landfill accrual.....	<u>(200,000)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(4,180,944)
<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>(231,882)</u>
Change in net assets of governmental activities.....		\$ <u>9,873,567</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2012

	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.....	\$ 7,866,750	\$ 530,732	\$ 8,397,482	\$ 4,155,348
Receivables, net of allowance for uncollectibles:				
Water and sewer fees.....	5,332,668	-	5,332,668	-
Prepaid expenses.....	15,466	73,651	89,117	-
Total current assets.....	<u>13,214,884</u>	<u>604,383</u>	<u>13,819,267</u>	<u>4,155,348</u>
<b>NONCURRENT:</b>				
Capital assets, net of accumulated depreciation.....	51,382,515	2,165,515	53,548,030	-
<b>TOTAL ASSETS.....</b>	<u>64,597,399</u>	<u>2,769,898</u>	<u>67,367,297</u>	<u>4,155,348</u>
<b>LIABILITIES</b>				
<b>CURRENT:</b>				
Warrants payable.....	1,104,417	113,189	1,217,606	8,240
Accrued interest.....	107,080	9,011	116,091	-
Due to other funds.....	-	250,000	250,000	-
Other liabilities.....	-	7,404	7,404	-
Compensated absences.....	233,312	16,928	250,240	-
Workers' compensation.....	-	-	-	248,750
Unamortized premium on bonds payable.....	6,963	-	6,963	-
Bonds payable.....	2,017,386	155,000	2,172,386	-
Total current liabilities.....	<u>3,469,158</u>	<u>551,532</u>	<u>4,020,690</u>	<u>256,990</u>
<b>NONCURRENT:</b>				
Compensated absences.....	88,927	4,510	93,437	-
Workers' compensation.....	-	-	-	746,250
Postemployment benefits.....	1,415,984	44,224	1,460,208	-
Unamortized premium on bonds payable.....	96,641	-	96,641	-
Bonds payable.....	9,698,405	899,000	10,597,405	-
Total noncurrent liabilities.....	<u>11,299,957</u>	<u>947,734</u>	<u>12,247,691</u>	<u>746,250</u>
<b>TOTAL LIABILITIES.....</b>	<u>14,769,115</u>	<u>1,499,266</u>	<u>16,268,381</u>	<u>1,003,240</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	39,666,724	1,111,515	40,778,239	-
Unrestricted.....	10,161,560	159,117	10,320,677	3,152,108
<b>TOTAL NET ASSETS.....</b>	<u>\$ 49,828,284</u>	<u>\$ 1,270,632</u>	<u>\$ 51,098,916</u>	<u>\$ 3,152,108</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water &amp; Sewer</u>	<u>Golf Course</u>	<u>Total</u>	
<b><u>OPERATING REVENUES:</u></b>				
Employer contributions .....	\$ -	\$ -	\$ -	\$ 2,180,663
Charges for services .....	<u>25,284,535</u>	<u>1,190,422</u>	<u>26,474,957</u>	<u>-</u>
TOTAL OPERATING REVENUES .....	<u>25,284,535</u>	<u>1,190,422</u>	<u>26,474,957</u>	<u>2,180,663</u>
<b><u>OPERATING EXPENSES:</u></b>				
Cost of services and administration .....	20,241,651	706,224	20,947,875	-
Depreciation.....	1,139,785	100,207	1,239,992	-
Employee benefits .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,421,176</u>
TOTAL OPERATING EXPENSES .....	<u>21,381,436</u>	<u>806,431</u>	<u>22,187,867</u>	<u>2,421,176</u>
OPERATING INCOME (LOSS).....	<u>3,903,099</u>	<u>383,991</u>	<u>4,287,090</u>	<u>(240,513)</u>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>				
Investment income.....	22,748	8,522	31,270	8,631
Interest expense.....	(389,499)	(27,600)	(417,099)	-
Intergovernmental.....	12,553,698	-	12,553,698	-
Loss on disposal of capital assets.....	<u>(2,901)</u>	<u>-</u>	<u>(2,901)</u>	<u>-</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>12,184,046</u>	<u>(19,078)</u>	<u>12,164,968</u>	<u>8,631</u>
INCOME (LOSS) BEFORE TRANSFERS.....	<u>16,087,145</u>	<u>364,913</u>	<u>16,452,058</u>	<u>(231,882)</u>
<b><u>TRANSFERS:</u></b>				
Transfers out.....	<u>(1,820,366)</u>	<u>(138,852)</u>	<u>(1,959,218)</u>	<u>-</u>
CHANGE IN NET ASSETS.....	14,266,779	226,061	14,492,840	(231,882)
NET ASSETS AT BEGINNING OF YEAR (AS REVISED).....	<u>35,561,505</u>	<u>1,044,571</u>	<u>36,606,076</u>	<u>3,383,990</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 49,828,284</u>	<u>\$ 1,270,632</u>	<u>\$ 51,098,916</u>	<u>\$ 3,152,108</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	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.....	\$ 24,911,011	\$ 1,190,422	\$ 26,101,433	\$ -
Receipts from interfund services provided.....	-	-	-	2,180,663
Payments to vendors.....	(17,832,917)	(351,851)	(18,184,768)	(2,435,387)
Payments to employees.....	(2,229,805)	(365,623)	(2,595,428)	-
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b><u>4,848,289</u></b>	<b><u>472,948</u></b>	<b><u>5,321,237</u></b>	<b><u>(254,724)</u></b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>				
Transfers out.....	(1,820,366)	(138,852)	(1,959,218)	-
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>				
Proceeds from the issuance of bonds and notes.....	1,845,600	419,000	2,264,600	-
Premium from the issuance of bonds and notes.....	103,604	-	103,604	-
Premium from the issuance of refunding bonds and notes.....	14,500	6,000	20,500	-
Capital grants.....	12,553,698	-	12,553,698	-
Acquisition and construction of capital assets.....	(11,814,513)	(266,390)	(12,080,903)	-
Principal payments on bonds.....	(2,593,761)	(445,000)	(3,038,761)	-
Interest expense.....	(424,761)	(34,104)	(458,865)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b><u>(315,633)</u></b>	<b><u>(320,494)</u></b>	<b><u>(636,127)</u></b>	<b><u>-</u></b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Investment income.....	22,748	8,522	31,270	8,631
<b>NET CASH FROM INVESTING ACTIVITIES.....</b>	<b><u>22,748</u></b>	<b><u>8,522</u></b>	<b><u>31,270</u></b>	<b><u>8,631</u></b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>2,735,038</b>	<b>22,124</b>	<b>2,757,162</b>	<b>(246,093)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (AS REVISED).....</b>	<b><u>5,131,712</u></b>	<b><u>508,608</u></b>	<b><u>5,640,320</u></b>	<b><u>4,401,441</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b><u>\$ 7,866,750</u></b>	<b><u>\$ 530,732</u></b>	<b><u>\$ 8,397,482</u></b>	<b><u>\$ 4,155,348</u></b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u></b>				
<b><u>FROM OPERATING ACTIVITIES:</u></b>				
Operating income (loss).....	\$ 3,903,099	\$ 383,991	\$ 4,287,090	\$ (240,513)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	1,139,785	100,207	1,239,992	-
Changes in assets and liabilities:				
Charges for services receivable.....	(373,524)	-	(373,524)	-
Due to other funds.....	-	(25,000)	(25,000)	-
Prepaid expenses.....	(249)	(66,459)	(66,708)	-
Warrants payable.....	38,389	101,173	139,562	(26,211)
Postemployment benefits.....	166,078	5,187	171,265	-
Accrued liabilities.....	(120)	-	(120)	-
Other liabilities.....	-	206	206	-
Accrued compensated absences.....	(25,169)	(26,357)	(51,526)	-
Workers' compensation.....	-	-	-	12,000
Total adjustments.....	<u>945,190</u>	<u>88,957</u>	<u>1,034,147</u>	<u>(14,211)</u>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b><u>\$ 4,848,289</u></b>	<b><u>\$ 472,948</u></b>	<b><u>\$ 5,321,237</u></b>	<b><u>\$ (254,724)</u></b>
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>				
Loss on disposal of fixed assets.....	\$ 2,901	\$ -	\$ 2,901	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 1,209,111	\$ 294,013	\$ 1,273,480	\$ -
Investments.....	202,215,752	12,426,745	3,153,933	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	1,126,378	-	-	400,529
Due from other funds.....	-	-	400,529	-
<b>TOTAL ASSETS.....</b>	<b>204,551,241</b>	<b>12,720,758</b>	<b>4,827,942</b>	<b>400,529</b>
<b>LIABILITIES</b>				
Warrants payable.....	110,430	-	250	-
Accrued liabilities.....	-	-	264,047	-
Due to other funds.....	-	-	-	400,529
<b>TOTAL LIABILITIES.....</b>	<b>110,430</b>	<b>-</b>	<b>264,297</b>	<b>400,529</b>
<b>NET ASSETS</b>				
Held in trust for pension benefits, opeb, and other purposes..	\$ <u>204,440,811</u>	\$ <u>12,720,758</u>	\$ <u>4,563,645</u>	\$ <u>-</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	Pension Trust Fund (as of December 31, 2011)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer.....	\$ 15,025,000	\$ 1,756,350	\$ -
Employee.....	5,466,566	-	-
Private donations.....	-	-	175,188
<b>Total contributions.....</b>	<b>20,491,566</b>	<b>1,756,350</b>	<b>175,188</b>
Net investment income (loss):			
Net change in fair value of investments.....	(6,231,353)	-	-
Investment income (loss).....	3,631,602	82,068	55,882
<b>Total investment income (loss).....</b>	<b>(2,599,751)</b>	<b>82,068</b>	<b>55,882</b>
Less: investment expense.....	(1,068,345)	-	-
Net investment income (loss).....	(3,668,096)	82,068	55,882
Intergovernmental.....	639,517	-	-
Transfers from other systems.....	666,105	-	-
<b>TOTAL ADDITIONS.....</b>	<b>18,129,092</b>	<b>1,838,418</b>	<b>231,070</b>
<b>DEDUCTIONS:</b>			
Administration.....	472,439	-	917
Transfers to other systems.....	848,433	-	-
Retirement benefits and refunds.....	24,416,644	-	-
Educational scholarships.....	-	-	211,452
<b>TOTAL DEDUCTIONS.....</b>	<b>25,737,516</b>	<b>-</b>	<b>212,369</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>(7,608,424)</b>	<b>1,838,418</b>	<b>18,701</b>
NET ASSETS AT BEGINNING OF YEAR.....	212,049,235	10,882,340	4,544,944
NET ASSETS AT END OF YEAR.....	<u>\$ 204,440,811</u>	<u>\$ 12,720,758</u>	<u>\$ 4,563,645</u>

See notes to basic financial statements.

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

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

**A. Reporting Entity**

The Town was founded in 1630 as a part of Boston and was incorporated in 1705 under the Statutes of the Commonwealth of Massachusetts. The Town operates under a representative Town Meeting form of government and provides the following services to the residents of its community: administrative, public safety, public works, education, community development, water and sewer, health 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 11 Pierce Street, Brookline, MA 02445.

**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, Building 39, Boston, Massachusetts 02129.

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 *Runkle School Renovation fund* is used to account for financial resources for the renovation of the Runkle School building.

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, 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.

Sometimes the Town will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the Town’s policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

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).

The golf, water and sewer enterprise funds and the 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 Revision

Beginning net assets of both the Governmental and the Water & Sewer funds have been reclassified by \$679,803 to account for the reporting of long-term debt and fund balance previously reported in the Water & Sewer Enterprise Funds relating to the Fisher Hill Reservoir project.

Beginning fund balance of the Non-Major Governmental funds has been revised to account for the reclassification of a capital project fund previously accounted for as a Water & Sewer fund. The result is a beginning balance revision of \$535,197.

### **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 and the other postemployment benefits 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 \$56,908,834 and the bank balance totaled \$61,463,574. Of the bank balance, \$1,599,761 was covered by Federal Depository Insurance, \$821,310 was covered by the FDIC Transaction Account Guarantee Program, and \$59,042,503 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Town's cash and cash equivalents consist of \$56,908,834 in deposits and \$27,420,085 in cash equivalents. These cash and cash equivalents are reported in both the primary government and the fiduciary funds. Those amounts total \$82,761,426 and \$1,567,493, respectively. See investments below for amounts designated as cash equivalents.

At December 31, 2011, the carrying amount of deposits for the Retirement System totaled \$214,204 and the bank balance totaled \$687,301. The entire bank balance of \$687,301 was covered by Federal Depository Insurance.

The Retirement System's cash and cash equivalents consist of \$214,204 in deposits and \$994,907 in cash equivalents, totaling \$1,209,111. 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, 2012:

Investment Type	Fair Value	Maturity			
		Under 1 Year	1-5 Years	6-10 Years	Over 10 Years
<u>Debt Securities</u>					
United States Treasury.....	\$ 660,377	\$ 126,394	\$ -	\$ 307,046	\$ 226,937
Federal National Mortgage Asso.....	1,045,496	16,110	61,408	-	967,978
Federal Home Loan Mortgage Corp.....	111,184	10,038	32,123	-	69,023
Corporate Bonds.....	23,201	-	11,586	11,615	-
Total Debt Securities.....	\$ 1,840,258	\$ 152,542	\$ 105,117	\$ 318,661	\$ 1,263,938
<u>Other Investments</u>					
Alternative Investments - hedge funds.....	2,537,425				
Bond Mutual Funds.....	361,804				
Equity Securities.....	7,713,245				
Equity Mutual Funds.....	8,476,927				
Repurchase Agreements (*).....	2,301,392				
Money Market Mutual Funds (*).....	330,578				
MMDT (*).....	24,788,115				
Total Investments.....	\$ 48,349,744				
(*) designates cash equivalent					
Total investments per above.....	\$ 48,349,744				
Less: cash equivalents.....	(27,420,085)				
Total Investments.....	\$ 20,929,659				

The Town's investments are reported in both the primary government and the fiduciary funds. Those amounts total \$5,348,981 and \$15,580,678, respectively.

As of December 31, 2011, the Retirement System had the following investments:

<u>Other Investments</u>	
Equity Security Mutual Funds.....	\$ 96,057,359
International Securities.....	28,229,346
PRIT Investments.....	27,516,677
Alternative Investments-Real Estate.....	50,412,370
Money Market Mutual Funds (*).....	994,907
Total Investments.....	\$ 203,210,659

(\*) 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, \$660,377 in U.S. Treasury Securities, \$1,045,496 in Federal National Mortgage Association, \$111,184 in Federal Home Loan Mortgage Corporation, \$23,201 in Corporate Bonds and \$7,713,245 in Equity Securities, the Town has custodial credit risk exposure of \$9,553,503 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 make up 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, 2012 the Town’s debt securities were rated as follows:

Rated Debt Investments - Town's					
Quality Ratings	United States Treasury	Federal National Mortgage Asso.	Federal Home Loan Mortgage Corp.	Corporate Bonds	Total
AAA.....	\$ 660,377	\$ 1,045,496	\$ 111,184	\$ -	\$ 1,817,057
A1.....	-	-	-	11,615	11,615
A3.....	-	-	-	11,586	11,586
Fair Value..	<u>\$ 660,377</u>	<u>\$ 1,045,496</u>	<u>\$ 111,184</u>	<u>\$ 23,201</u>	<u>\$ 1,840,258</u>

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 \$28,229,346 in International Securities the Retirement System has custodial credit risk exposure of \$28,229,346 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 9.69 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, 2012, 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, 2011, the Retirement System does not have any investments that exceed the 5% threshold.

**NOTE 3 – RECEIVABLES**

At June 30, 2012, 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....	\$ 1,742,551	\$ -	\$ 1,742,551
Tax liens.....	1,575,065	-	1,575,065
Motor vehicle and other excise taxes.....	453,542	(356,015)	97,527
User fees.....	130,565	-	130,565
Departmental and other.....	4,470,256	(1,199,444)	3,270,812
Intergovernmental.....	10,639,836	-	10,639,836
Loans.....	111,022	-	111,022
Total.....	<u>\$ 19,122,837</u>	<u>\$ (1,555,459)</u>	<u>\$ 17,567,378</u>

At June 30, 2012, receivables for the water and sewer enterprise fund totaled \$5,332,668. 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....	\$ 1,037,635	\$ -	\$ 1,037,635
Tax liens.....	1,409,521	-	1,409,521
Motor vehicle and other excise taxes.....	97,527	-	97,527
User fees.....	130,565	-	130,565
Departmental and other.....	3,196,704	633,396	3,830,100
Intergovernmental.....	4,210,000	4,711,884	8,921,884
<u>Other asset type:</u>			
Due from other funds.....	250,000	-	250,000
Total.....	<u>\$ 10,331,952</u>	<u>\$ 5,345,280</u>	<u>\$ 15,677,232</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 874,873	\$ -	\$ -	\$ 874,873
Construction in progress.....	5,387,090	21,791,104	-	27,178,194
Total capital assets not being depreciated....	<u>6,261,963</u>	<u>21,791,104</u>	<u>-</u>	<u>28,053,067</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	21,575,099	664,668	-	22,239,767
Buildings.....	241,615,565	3,063,317	(256,106)	244,422,776
Machinery and equipment.....	24,570,638	1,312,267	(1,441,556)	24,441,349
Infrastructure.....	41,433,819	2,673,302	(1,426,006)	42,681,115
Total capital assets being depreciated.....	<u>329,195,121</u>	<u>7,713,554</u>	<u>(3,123,668)</u>	<u>333,785,007</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(9,385,543)	(817,696)	-	(10,203,239)
Buildings.....	(96,138,562)	(5,525,799)	43,269	(101,621,092)
Machinery and equipment.....	(13,008,171)	(1,891,026)	1,288,786	(13,610,411)
Infrastructure.....	(23,663,036)	(1,416,544)	1,426,006	(23,653,574)
Total accumulated depreciation.....	<u>(142,195,312)</u>	<u>(9,651,065)</u>	<u>2,758,061</u>	<u>(149,088,316)</u>
Total capital assets being depreciated, net.....	<u>186,999,809</u>	<u>(1,937,511)</u>	<u>(365,607)</u>	<u>184,696,691</u>
Total governmental activities capital assets, net.....	<u>\$ 193,261,772</u>	<u>\$ 19,853,593</u>	<u>\$ (365,607)</u>	<u>\$ 212,749,758</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.....	1,696,624	60,662	(82,361)	1,674,925
Infrastructure.....	54,977,274	11,172,954	-	66,150,228
Total capital assets being depreciated.....	59,446,004	11,233,616	(82,361)	70,597,259
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(59,895)	(6,574)	-	(66,469)
Buildings.....	(1,063,020)	(56,077)	-	(1,119,097)
Machinery and equipment.....	(1,028,094)	(137,395)	79,460	(1,086,029)
Infrastructure.....	(16,003,410)	(939,739)	-	(16,943,149)
Total accumulated depreciation.....	(18,154,419)	(1,139,785)	79,460	(19,214,744)
Total capital assets being depreciated, net.....	\$ 41,291,585	\$ 10,093,831	\$ (2,901)	\$ 51,382,515
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Golf Course Activities:</b>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 1,150,285	\$ 192,739	\$ -	\$ 1,343,024
Buildings.....	1,637,365	-	-	1,637,365
Machinery and equipment.....	70,279	73,651	-	143,930
Total capital assets being depreciated.....	2,857,929	266,390	-	3,124,319
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(345,586)	(45,666)	-	(391,252)
Buildings.....	(468,523)	(38,799)	-	(507,322)
Machinery and equipment.....	(44,488)	(15,742)	-	(60,230)
Total accumulated depreciation.....	(858,597)	(100,207)	-	(958,804)
Total capital assets being depreciated, net.....	\$ 1,999,332	\$ 166,183	\$ -	\$ 2,165,515

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

**Governmental Activities:**

General government.....	\$	517,154
Public safety.....		1,255,211
Education.....		3,811,999
Public works.....		3,187,169
Leisure services.....		669,103
Human services.....		210,429

Total depreciation expense - governmental activities..... \$ 9,651,065

**Business-Type Activities:**

Water and Sewer.....	\$	1,139,785
Golf.....		100,207

Total depreciation expense - business-type activities..... \$ 1,239,992

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			
	General Fund	Capital Article Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 7,401,546	\$ 355,264	\$ 7,756,810
Nonmajor Governmental Funds...	4,187,467	-	-	4,187,467
Water & Sewer Enterprise Fund...	1,820,366	-	-	1,820,366
Capital Article Fund.....	49,631	-	-	49,631
Golf Enterprise Fund.....	138,852	-	-	138,852
	<u>\$ 6,196,316</u>	<u>\$ 7,401,546</u>	<u>\$ 355,264</u>	<u>\$ 13,953,126</u>

Transfers represent amounts voted to fund the fiscal year 2012 operating budget and indirect costs transfers from the enterprise funds.

**NOTE 6 - SHORT-TERM FINANCING**

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

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

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

The Town had no short-term financing activity during fiscal year 2012.

**NOTE 7 - LONG-TERM DEBT**

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

On March 6 of the current fiscal year, the Town issued \$17,950,000 of general obligation bonds which comprised of a \$4,395,500 advance refunding, a \$909,500 current refunding, and \$12,645,000 of new debt. See below for a description of each issuance.

In order to take advantage of favorable interest rates the Town:

- issued \$4,395,500 of general obligation refunding bonds. \$4,620,000 of general obligation bonds were defeased by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. The Town has decreased its aggregate debt service by \$499,664 and resulted in an economic gain of \$481,435. At June 30, 2012, \$4,600,000 of governmental and \$20,000 of enterprise fund bonds outstanding from the advance refunding are considered defeased;
- issued \$909,500 of general obligation refunding bonds. \$930,000 of general obligation bonds were callable and paid down as a result of this transaction. Accordingly, the called bonds are not included in the basic financial statements. The Town has decreased its aggregate debt service by \$87,652 and resulted in an economic gain of \$70,776. At June 30, 2012, \$930,000 of enterprise fund bonds were called and are not included in the basic financial statements.

The Town issued \$12,645,000 of new general obligation bonds. The current year financial statements have recognized bond proceeds in the amount of \$11,520,000 in the governmental funds, \$1,000,000 in the water enterprise fund, and \$125,000 in the golf enterprise fund.

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, 2012, \$25,445,000 of Governmental and \$3,320,000 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>			Original	Interest	Outstanding			Outstanding
Project	Maturities		Loan	Rate	at June 30,	Issued	Redeemed	at June 30,
	Through		Amount	(%)	2011			2012
<i>Inside Debt Limit</i>								
Schools.....	2013	\$	32,695,202	2.59-5.91	\$ 23,617,822	\$ 4,375,500	\$ 8,403,488	\$ 19,589,834
General Government.....	2028		46,016,075	3.22-5.28	30,523,225	950,000	3,207,749	28,265,476
Sub-total.....					54,141,047	5,325,500	11,611,237	47,855,310
<i>Outside Debt Limit</i>								
Schools.....	2032		19,760,000	5.33 - 5.35	8,270,000	10,570,000	920,000	17,920,000
Total Governmental bonds Payable.....					62,411,047	15,895,500	12,531,237	65,775,310
<b>Enterprise Funds</b>								
<i>Inside Debt Limit</i>								
Golf Course Enterprise Fund.....	2032		1,219,000	3.19-3.90	1,080,000	419,000	445,000	1,054,000
Water Enterprise Fund.....	2022		11,492,530	0.00-6.63	5,255,351	1,000,000	1,004,161	5,251,190
Sewer Enterprise Fund.....	2021		10,077,200	3.90-5.28	7,208,601	845,600	1,589,600	6,464,601
Total Enterprise Bonds Payable.....					13,543,952	2,264,600	3,038,761	12,769,791
Total Bonds Payable.....		\$			75,954,999	\$ 18,160,100	\$ 15,569,998	\$ 78,545,101

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

Fiscal Year	Principal	Interest	Total
2013.....	\$ 7,404,634	\$ 2,353,085	\$ 9,757,719
2014.....	6,607,088	2,026,141	8,633,229
2015.....	6,027,294	1,830,197	7,857,491
2016.....	5,603,794	1,639,755	7,243,549
2017.....	5,375,000	1,456,349	6,831,349
2018.....	4,932,500	1,275,724	6,208,224
2019.....	4,605,000	1,101,886	5,706,886
2020.....	4,275,000	949,136	5,224,136
2021.....	2,820,000	783,683	3,603,683
2022.....	2,810,000	674,525	3,484,525
2023.....	2,245,000	563,121	2,808,121
2024.....	2,240,000	481,864	2,721,864
2025.....	2,240,000	399,403	2,639,403
2026.....	1,850,000	315,162	2,165,162
2027.....	1,645,000	246,287	1,891,287
2028.....	1,645,000	185,113	1,830,113
2029.....	975,000	119,437	1,094,437
2030.....	975,000	87,188	1,062,188
2031.....	975,000	51,748	1,026,748
2031.....	525,000	15,750	540,750
Totals.....	\$ 65,775,310	\$ 16,555,552	\$ 82,330,862

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>
2013..... \$	2,172,386 \$	442,799 \$	2,615,185
2014.....	2,124,932	368,048	2,492,980
2015.....	1,799,726	293,725	2,093,451
2016.....	1,788,226	234,065	2,022,291
2017.....	1,522,020	174,699	1,696,719
2018.....	1,132,501	122,200	1,254,701
2019.....	830,000	82,118	912,118
2020.....	700,000	53,157	753,157
2021.....	370,000	26,356	396,356
2022.....	125,000	12,456	137,456
2023.....	25,000	7,556	32,556
2024.....	25,000	6,733	31,733
2025.....	25,000	5,882	30,882
2026.....	25,000	4,976	29,976
2027.....	20,000	4,062	24,062
2028.....	20,000	3,332	23,332
2029.....	20,000	2,543	22,543
2030.....	20,000	1,780	21,780
2031.....	20,000	974	20,974
2031.....	5,000	150	5,150
Totals..... \$	<u>12,769,791</u> \$	<u>1,847,611</u> \$	<u>14,617,402</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 2012, \$1,228,000 of such assistance was received for reimbursement. Approximately \$5,200,000 will be received in future fiscal years. Of this amount, \$1,000,000 represents reimbursement of long-term interest costs, and \$4,200,000 represents reimbursement of approved construction costs. Accordingly, a \$4,200,000 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 Schools under this program. Through the end of fiscal year 2012, the Town has recorded capital grant revenue totaling approximately \$5,500,000 and \$1,200,000 respectfully, from the MSBA which is equal to 40% and 34.5% of approved construction costs incurred to date. The Town received \$4,400,000 of reimbursements related to the Runkle School and \$1,000,000 related to the Heath School in fiscal 2012.

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, 2012, the Town had the following authorized and unissued debt:

Purpose	Amount
Runkle School.....	\$ 7,015,948
Carlton Street Foot Bridge.....	1,400,000
Golf - Grounds.....	815,000
Muddy River Project.....	745,000
Heath School.....	1,966,393
Storm drains.....	500,000
Sewers.....	2,913,965
<b>Total.....</b>	<b>\$ 15,356,306</b>

**Changes in Long-term Liabilities**

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

**Governmental Funds**

	Balance June 30, 2011	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2012	Current Portion
Long-Term Bonds and Notes.....	\$ 62,411,047	\$ 15,895,500	\$ (12,531,237)	\$ -	\$ 65,775,310	\$ 7,404,634
Unamortized premium on bonds payable...	-	-	-	630,808	630,808	74,950
Other Postemployment Benefits.....	33,427,338	-	-	4,441,551	37,868,889	-
Workers' Compensation.....	983,000	-	-	12,000	995,000	248,750
Compensated Absences.....	9,592,508	-	-	(465,799)	9,126,709	5,429,223
Landfill Closure.....	4,670,000	-	-	200,000	4,870,000	170,000
<b>Total.....</b>	<b>\$ 111,083,893</b>	<b>\$ 15,895,500</b>	<b>\$ (12,531,237)</b>	<b>\$ 4,818,560</b>	<b>\$ 119,266,716</b>	<b>\$ 13,327,557</b>

**Business-Type Activities**

	Balance June 30, 2011	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2012	Current Portion
Long-Term Bonds and Notes.....	\$ 13,543,952	\$ 2,264,600	\$ (3,038,761)	\$ -	\$ 12,769,791	\$ 2,172,386
Unamortized premium on bonds payable...	-	-	-	103,604	103,604	6,963
Other Postemployment Benefits.....	1,288,943	-	-	171,265	1,460,208	-
Compensated Absences.....	395,203	-	-	(51,526)	343,677	250,240
<b>Total.....</b>	<b>\$ 15,228,098</b>	<b>\$ 2,264,600</b>	<b>\$ (3,038,761)</b>	<b>\$ 223,343</b>	<b>\$ 14,677,280</b>	<b>\$ 2,429,589</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, \$995,000 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 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The Town has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

The Town has classified its fund balances with the following hierarchy:

	GOVERNMENTAL FUNDS					Total Governmental Funds
	General	Chapter 90 Highway Fund	Runkle School Renovation Fund	Capital Article Fund	Nonmajor Governmental Funds	
<b>FUND BALANCES</b>						
Nonspendable:						
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ -	\$ 1,336,556	\$ 1,336,556
Restricted for:						
Housing trust funds.....	-	-	-	-	4,576,197	4,576,197
Parking meter fund.....	-	-	-	-	3,686,643	3,686,643
Revolving funds.....	-	-	-	-	1,813,098	1,813,098
Trust funds.....	-	-	-	-	11,174	11,174
Federal grant funds.....	-	-	-	-	919,334	919,334
Gift and grant funds.....	-	-	-	-	3,796,775	3,796,775
Storm damage fund.....	-	-	-	-	57,852	57,852
Sale of cemetery lots/ graves.....	-	-	-	-	350,585	350,585
Sale of municipal property.....	-	-	-	-	3,250,000	3,250,000
Non-expendable permanent funds.....	-	-	-	-	31,504	31,504
Cemetery perpetual care.....	-	-	-	-	133,429	133,429
Library permanent fund.....	-	-	-	-	4,277,825	4,277,825
Other permanent funds.....	-	-	-	-	485,960	485,960
Committed to:						
Revenue financed capital article major fund.....	-	-	778,608	12,016,482	-	12,795,090
Debt financed school capital projects.....	-	-	-	-	1,228,253	1,228,253
Debt financed town capital projects.....	-	-	-	-	2,030,785	2,030,785
Assigned to:						
General government.....	237,794	-	-	-	-	237,794
Public safety.....	374,839	-	-	-	-	374,839
Education.....	361,048	-	-	-	-	361,048
Public works.....	142,628	-	-	-	-	142,628
Human services.....	14,605	-	-	-	-	14,605
Leisure services.....	6,903	-	-	-	-	6,903
Employee benefits.....	72,812	-	-	-	-	72,812
Unassigned.....	<u>24,801,047</u>	<u>(183,266)</u>	-	-	-	<u>24,617,781</u>
<b>TOTAL FUND BALANCES (DEFICIT).....</b>	<b>\$ <u>26,011,676</u></b>	<b>\$ <u>(183,266)</u></b>	<b>\$ <u>778,608</u></b>	<b>\$ <u>12,016,482</u></b>	<b>\$ <u>27,985,970</u></b>	<b>\$ <u>66,609,470</u></b>

Unassigned fund balance of the General Fund includes \$5.3 million of available funds voted to fund the fiscal year 2013 operating budget.

**NOTE 9 – STABILIZATION FUND**

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

At fiscal year end, the balance of the General Stabilization Fund is \$5,808,860 and is reported as unassigned fund balance within the General Fund. The fund earned \$51,926 of investment income during fiscal year 2012. The stabilization fund balance can be used for general and/or capital purposes upon Town Meeting approval.

**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*

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, 2012, the amount of the liability for workers’ compensation claims totaled \$995,000. Changes in the reported liability since July 1, 2010, 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 2012.....\$	983,000	\$ 1,605,259	\$ (1,593,259)	995,000
Fiscal Year 2011.....	900,000	1,228,504	(1,145,504)	983,000

**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 \$15,634,037 for the fiscal year ended June 30, 2012, 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 financial report prepared in accordance with guidelines established by the Commonwealth’s PERAC. That report may be obtained by contacting the Retirement System located at 11 Pierce Street, Brookline, MA 02445.

At December 31, 2011, the Retirement System’s membership consists of the following:

Active members.....	1,338
Inactive members.....	1,306
Disabled members.....	185
Retirees and beneficiaries currently receiving benefits.....	<u>680</u>
Total.....	<u><u>3,509</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, 2012, 2011, and 2010 were approximately \$14,442,000, \$13,822,000 and \$12,064,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2012, 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, 2012 was 16 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 2012 totaled approximately \$113,891.

**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 2012, 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 2012, the Town contributed \$11.7 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 2012:

Annual required contribution.....	\$	15,558,958
Interest on existing net OPEB obligation.....		2,516,930
Adjustments to annual required contribution.....		<u>(1,807,557)</u>
Annual OPEB cost (expense).....		16,268,331
Contributions made.....		<u>(11,655,515)</u>
Increase/Decrease in net OPEB obligation.....		4,612,816
Net OPEB obligation - beginning of year.....		<u>34,716,281</u>
Net OPEB obligation - end of year.....	\$	<u><u>39,329,097</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 is as follows:

Fiscal year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/12	\$ 16,268,331	71.6%	\$ 39,329,097
6/30/11	15,562,334	71.0%	34,716,281
6/30/10	21,792,668	49.1%	37,552,391

*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, 2012, was 28 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 \$4,870,000 as the estimate of the rear landfill closure liability at June 30, 2012, 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, 2012 the outstanding loan balance was \$250,000.

**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 2012 cost to the Town was approximately \$844,000 and the expected cost for fiscal year 2013 is \$887,000. 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 fiscal year 2012 cost to the Town was approximately \$684,000 and the expected cost for fiscal year 2013 is \$537,000. The 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 \$15,356,306 for renovations to the Runkle School, the Heath School, landfill capping, 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, 2012.

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

During fiscal year 2012, the following GASB pronouncements were implemented:

- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53. The implementation of this pronouncement did not impact 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*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years. Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- 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.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

***Required Supplementary Information***

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

FISCAL YEAR ENDED JUNE 30, 2012

	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.....	\$ -	\$ 161,709,996	\$ 161,709,996	\$ 161,709,996
Motor vehicle and other excise taxes.....	-	4,700,000	4,700,000	4,700,000
Hotel/motel tax.....	-	950,000	950,000	950,000
Local meals tax.....	-	800,000	800,000	800,000
Charges for services.....	-	4,498,550	4,498,550	4,498,550
Penalties and interest on taxes.....	-	389,500	389,500	389,500
Payments in lieu of taxes.....	-	1,160,000	1,160,000	1,160,000
Licenses and permits.....	-	2,697,475	2,697,475	2,697,475
Fines and forfeitures.....	-	4,206,700	4,206,700	4,206,700
Intergovernmental.....	-	13,203,686	13,203,686	13,284,724
Departmental and other.....	-	640,567	640,567	640,567
Investment income.....	-	250,000	250,000	250,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>195,206,474</b>	<b>195,206,474</b>	<b>195,287,512</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	281,398	11,837,811	12,119,209	10,470,566
Public safety.....	236,441	33,916,402	34,152,843	35,000,847
Education.....	247,798	75,330,344	75,578,142	75,634,986
Public works.....	190,836	13,047,911	13,238,747	13,821,897
Human services.....	3,320	2,283,803	2,287,123	2,381,063
Leisure services.....	9,179	4,535,122	4,544,301	4,645,304
Pension benefits.....	-	14,612,334	14,612,334	14,612,334
Employee benefits.....	-	27,834,135	27,834,135	27,637,887
State and county charges.....	-	5,704,158	5,704,158	5,671,508
Debt service:				
Principal.....	-	7,951,237	7,951,237	7,951,237
Interest.....	-	2,345,902	2,345,902	2,345,902
<b>TOTAL EXPENDITURES.....</b>	<b>968,972</b>	<b>199,399,159</b>	<b>200,368,131</b>	<b>200,173,531</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(968,972)</b>	<b>(4,192,685)</b>	<b>(5,161,657)</b>	<b>(4,886,019)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from refunding bonds.....	-	-	-	-
Premium from issuance of bonds, net of expenditures.....	-	-	-	-
Premium from issuance of refunding bonds, net of expenditures.....	-	-	-	-
Payments to current refunding fund.....	-	-	-	-
Sale of capital assets.....	-	-	-	-
Transfers in.....	-	6,146,685	6,146,685	6,146,685
Transfers out.....	-	(7,334,264)	(7,334,264)	(8,009,902)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(1,187,579)</b>	<b>(1,187,579)</b>	<b>(1,863,217)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(968,972)</b>	<b>(5,380,264)</b>	<b>(6,349,236)</b>	<b>(6,749,236)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>19,150,450</b>	<b>19,150,450</b>	<b>19,150,450</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (968,972)</b>	<b>\$ 13,770,186</b>	<b>\$ 12,801,214</b>	<b>\$ 12,401,214</b>

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 162,674,174	\$ -	\$ 964,178
4,996,690	-	296,690
1,364,218	-	414,218
1,003,402	-	203,402
4,790,393	-	291,843
565,628	-	176,128
1,022,790	-	(137,210)
3,421,805	-	724,330
4,333,279	-	126,579
13,714,544	-	429,820
1,367,423	-	726,856
343,841	-	93,841
<u>199,598,187</u>	<u>-</u>	<u>4,310,675</u>
8,188,276	237,794	2,044,496
34,360,256	374,839	265,752
75,251,892	361,048	22,046
13,218,118	142,628	461,151
2,303,134	14,605	63,324
4,622,224	6,903	16,177
14,556,225	-	56,109
27,116,815	72,812	448,260
5,654,190	-	17,318
7,931,237	-	20,000
2,119,798	-	226,104
<u>195,322,165</u>	<u>1,210,629</u>	<u>3,640,737</u>
<u>4,276,022</u>	<u>(1,210,629)</u>	<u>7,951,412</u>
4,375,500	-	4,375,500
630,808	-	630,808
440,363	-	440,363
(4,815,863)	-	(4,815,863)
3,668	-	3,668
6,196,316	-	49,631
(8,009,902)	-	-
<u>(1,179,110)</u>	<u>-</u>	<u>684,107</u>
3,096,912	(1,210,629)	8,635,519
<u>19,150,450</u>	<u>-</u>	<u>-</u>
<u>\$ 22,247,362</u>	<u>\$ (1,210,629)</u>	<u>\$ 8,635,519</u>

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

JUNE 30, 2012

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	\$ 207,886,592	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
2012	\$ 15,558,958	\$ 11,655,515	75%
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.....	28 years as of June 30, 2012
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	7.25%, pay-as-you-go scenario
Inflation.....	4.00%
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 2012 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$207,700,000 in appropriations and other amounts to be raised. During fiscal year 2012, Town Meeting approved appropriation increases totaling \$481,000.

Funding for the current year budget comes from two primary sources: amounts raised in the current year and reserves accumulated over time (e.g. free cash and overlay). If the amount raised in the current year is less than the total amount appropriated, reserves are used to fund the difference. In Fiscal 2012 the Town used \$5,380,264 of free cash and \$400,000 of overlay to balance the budget. These reserves are used to fund one-time expenses, primarily capital projects.

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, 2012, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ 3,096,912
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	305,018
<u>Basis of accounting differences:</u>	
Recognition of expenditures on modified accrual basis.....	34,612
Net change in recording 60-day receipts accrual.....	62,113
Recognition of revenues on modified accrual basis.....	(545,027)
Tax refunds payable.....	(466,000)
Recognition of revenue for on-behalf payments.....	15,634,037
Recognition of expenditures for on-behalf payments.....	<u>(15,634,037)</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	<u>\$ 2,487,628</u>

**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.



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(Date of Delivery)

Stephen Cirillo, Finance Director/Treasurer  
Town of Brookline  
333 Washington Street  
Brookline, Massachusetts 02445

\$12,375,000  
Town of Brookline, Massachusetts  
General Obligation Municipal Purpose Loan of 2013 Bonds  
Dated as of the date hereof

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

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

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

1. The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town, subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Town with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Town has covenanted to comply with all such requirements. Failure by the Town to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

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

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

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

EDWARDS WILDMAN PALMER LLP

**PROPOSED FORM OF  
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Town of Brookline, Massachusetts (the “Issuer”) in connection with the issuance of its \$12,375,000 General Obligation Municipal Purpose Loan of 2013 Bonds dated as of the date hereof (the “Bonds”). The Issuer covenants and agrees as follows:

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

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

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

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

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

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

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

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

SECTION 3. Provision of Annual Reports.

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

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

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

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated May 21, 2013 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

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

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

SECTION 5. Reporting of Significant Events.

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

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

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

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

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

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this

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

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

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

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

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

Date: May 30, 2013

TOWN OF BROOKLINE,  
MASSACHUSETTS

By \_\_\_\_\_  
Treasurer

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Selectmen

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