

TOWN OF BROOKLINE, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2008

TOWN OF BROOKLINE, MASSACHUSETTS

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JUNE 30, 2008

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TOWN of BROOKLINE

Massachusetts

BOARD OF SELECTMEN

NANCY A. DALY, Chairman
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BETSY DeWITT
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RICHARD BENKA

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Letter of Transmittal

October 22, 2008

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

State and Federal regulations require the Town of Brookline to publish at the end of each fiscal year a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) that are audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Report on the Examination of the Basic Financial Statements of the Town of Brookline, Massachusetts, for the fiscal year ending June 30, 2008 for your review.

This report consists of management's representations concerning the finances of the Town of Brookline. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Brookline has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Brookline's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Brookline's comprehensive framework of internal controls has been designed to provide reasonable 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, 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, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Brookline's financial statements for the fiscal year ended June 30, 2008 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 compliment the MD&A and should be read in conjunction with it. The Town of Brookline's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

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

Municipal Services

The Town provides general governmental services within its boundaries including:

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

Governing Bodies and Officers

The Town operates under a Board of Selectmen/Town Meeting form of government. Local legislative decisions are made by a representative Town Meeting consisting of 248 members and implemented by a five-member Board of Selectmen. A Town Moderator is elected every three years to preside over the proceedings of Town Meeting. Day-to-day administrative authority is vested in the Town Administrator who is appointed by the Board of Selectmen. The Town Administrator is the chief operating officer and is responsible for the supervision and the administration of all municipal departments except for the School Department.

A nine person elected school committee is responsible for the administration of all local school affairs. There is also a nine member elected Board of Library Trustees. A three person Board of Assessors, who are appointed by the Board of Selectmen, are responsible for the assessment of local property taxes. A five member Retirement Board services employees and retirees in all Town 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, 2 members elected by active and retired members of the Retirement System, 1 member appointed by the Selectmen and a fifth member chosen by the other 4 Board members.

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), Leonard Weiss (Advisory Committee), Alan Morse (School Committee), James Littleton, Gregory Grobstein and Christopher Cox (Moderator's Appointees). In addition to the six voting members, the Director of Finance (Stephen Cirillo), the Comptroller (Judith Haupin), the Superintendent of Schools or his/her designee (Peter Rowe), and the Town Administrator or his/her designee (Sean Cronin) serve as nonvoting members of the Committee. The Audit Committee serves as advisor to the Board of Selectmen with respect to the Town's financial condition, financial management systems and controls and annual audit. In addition, the Committee shall report to

Town Meeting as the Committee sees fit on matters within the scope of Town Meeting's concerns. Specific duties shall include, but are not limited to the following:

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

Financial and Management Systems

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

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

The six-year capital improvement program (CIP), preliminarily submitted in the fall of each year as well, comprehensively identifies municipal infrastructure and improvement needs by detailing each project, including project description, cost, potential source(s) of funding, priority need, impact upon the operating budget, and ongoing capital maintenance costs. After public hearings by various boards and commissions, the Board of Selectmen adopts an annual funding strategy, which is predicated upon the Town's formal policy of dedicating 5.5% of the prior year's net revenue, plus free cash, to the CIP. The annual update allows decision makers and voters the opportunity to regularly analyze and decide upon priority project funding.

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

Principal Executive Officers

<u>Office</u>	<u>Name</u>	<u>Term</u>	<u>Term Exp.</u>
Town Administrator	Richard J. Kelliher	Appointed - 3 years	2009
Deputy Town Administrator	Sean Cronin	Appointed - 1 year	2009
Assistant Town Administrator	Melissa Goff	Appointed - 1 year	2009
Finance Director and Treasurer	Stephen Cirillo	Appointed - 1 year	2009

Town Comptroller	Judith Ann Haupin	Appointed - 1 year	2009
Town Clerk	Patrick J. Ward	Elected - 3 years	2009
Town Counsel	Jennifer Dopazo	Appointed - 3 years	2011

Factors Affecting Financial Condition

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

Tax Base/Local Economy

Brookline is bordered by the City of Boston. It has both urban and suburban features and is characterized by comparatively high property values. Approximately 74% of the general fund revenues are financed by the annual taxes on property. The remaining revenues come from locally derived receipts (approximately 10%), State aid (approximately 10%), transfers from other non-general funds (approximately 3 %) and other available funds (approximately 3 %).

Residential property comprises 90.8% of the full and fair value of the property in Brookline and they are responsible for 83.4% of the taxes. The Town has been adopting the tax classification authorization that permits it to set two separate tax rates. The current tax rates are:

Residential	\$ 10.18 per thousand
Commercial	\$ 16.70 per thousand

A combination of significant new development and a strong real estate market has contributed to a steadily growing tax base. The tax base (current market valuation of \$14.2 billion) has increased nearly 108% since FY2000 reflecting strong development and real estate appreciation. The town's tax base is now among the six largest in Massachusetts. Building permit activity continues at a strong pace, having averaged more than \$ 2.4 million annually over the last five years. Per capita market value of approximately \$250,000 is also among the highest in the state, as is the per capita personal income level, which is approximately \$45,435 according to the 2000 census.

The Annual Financial Plan

A number of cost centers have placed significant pressures on the operating budget, including health insurance, pensions and utilities. These cost pressures have made maintaining the level and quality of services the Town delivers difficult. Double digit growth in health insurance premiums have been the norm over the past few years, consuming approximately one third of all new property tax revenue since FY 2003. This line item has increased from \$12 million in FY 2003 to \$23 million in FY 2009. The Town has taken steps to help blunt some of the recent increases, the most recently being the implementation of plan design changes in FY 2008 that resulted in an annualized decrease of more than \$1 million in the health insurance budget. Increases in the Town's contribution to the Retirement System have averaged approximately \$500,000 over the past five years, including the large \$1.1 million increase in FY 2008. Utility expenses have skyrocketed since FY2003: the price of both electricity and natural gas has increased by 143%; the price of heating oil is now more than five times what it was; and the price of vehicle fuel is more than three times what it was. As a result, the Town's total utility budget has nearly doubled since FY 2003 to more than \$5 million.

On the revenue side, while property taxes comprise approximately three quarters of the Town's general fund revenue, there are two other revenue streams that impact the budget significantly: state aid and local receipts. The Town continues to grapple with the lack of full restoration of local aid cuts made in FY2003 and FY2004, during which time local aid was cut by close to \$3 million. While some restoration has occurred, the Town continues to be below the FY2003 levels when accounting for inflation. The current fiscal climate at the state level

points to decreases in state aid in FY2010, so there is likely to be a significant negative impact on the Town's ability to provide services.

Local receipts, which consist of sources such as motor vehicle excise, refuse fees, building permits, interest income, parking tickets and hotel/motel excise taxes, makes up approximately 10% of the Town's annual revenue. Over the past half decade, the Town has increased certain local receipts in order to replace revenue lost from state aid cuts, thereby increasing reliance on local revenues to cover the increasing cost of providing services. Examples include increases in the Refuse Fee, fines for parking violations, and parking meter fees. The Town continues to review all current and potential sources of revenue.

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 a five-year forecast and a six-year Capital Improvement Program; establishing rainy day accounts and budgeting stabilization reserves; prioritizing spending plans and identifying discretionary spending; incorporating pay-as-you-go financing strategies; developing long-term planning for all liabilities including pension and insurance reserves; investing in technology to make our 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 establishing enterprise funds for certain operations. This has allowed the Town to shift 100% percent of the operating cost and capital improvements to the users of certain services so that no tax support goes towards providing these services. This includes the water, sewer and municipal golf course operations. By doing so, the Town is able to provide the maximum tax dollars available to all other services.

Through the CIP process, the Town of Brookline has identified approximately \$ 145.1 million in capital improvements needed over the next 6 years. Large components of this total include the following:

- ✦ anticipated school projects (\$102.2 million). It is important to note that the two major renovations projects planned for (Runkle School and Devotion School) assume the new School Building Authority (SBA) covers 50% of the costs. If that does not occur, then either the projects need to be reduced in scope or debt exclusion votes are required. The Town has submitted statements of interest to apply for SBA assistance for these projects. The Runkle School is one of just a few on the SBA's "targeted feasibility study" list. The Town is working very closely with the SBA and will be seeking funding at the 2008 Fall Town Meeting for its share of the schematic design portion of the project. The Town should be cautioned, however, that with the combination of a slowdown in the economy (which will reduce SBA revenue) and a need for school construction in economically challenged communities, it is not certain that the Town will be as fortunate with the Devotion School.
- ✦ upgrade and maintenance of our waste water system (\$4.8 million), which will be borne by the water and sewer rates rather than the tax levy.
- ✦ rehabilitation of the Town's streets and sidewalks (\$ 18.5 million). The 2008 Override (see below) 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 \$4.9 million of this work.
- ✦ the purchase of the former state-owned Fisher Hill reservoir for transformation into an active / passive open space (\$4.6 million, of which just \$1.35 million is supported by the tax base).
- ✦ The Gateway East project in the Brookline Village / Route 9 area (\$3 million). The Town plans on utilizing the Section 108 Loan Program afforded by the Federal government under the CDBG program to finance \$2.25 million. The remaining piece is to be funded by outside sources related to the 2 Brookline Place redevelopment.
- ✦ Landfill – Clean up of properties adjoining the Landfill (approximately \$8.1 million, of which \$3 million has already been appropriated). Additional costs associated with this project are yet to be determined.

Cash management policies and practices

The Town of Brookline issues property tax bills four times a year and derives approximately 74% 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 level of receipts) this money is transferred into our account at the Massachusetts Municipal Depository Trust (MMDT) that has offered a higher rate of return over the past year. This is the State Treasurer's pool of invested funds managed currently by Fidelity Investments. The Trust's investment policy requires that these funds be invested in short term fixed income securities (both government and corporate) with maturities not to exceed 90 days. Our funds in this account are entirely liquid.

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.

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 of revenues, annual budget deficits have become the norm. In order to balance the budgets, the Town has sought ways to consolidate or find other ways to continue to deliver a high level of service at lower costs. Over the past couple budget cycles, the Town has taken steps toward reducing both immediate and long-term costs, including the following:

- eliminating 13 FTE's from the budget
- further utilization of contracted services
- implementation of plan design changes in the Town's health insurance program (see above)

Override Study Committee

The mix of expenditure controls and revenue enhancements were necessary to balance the budget. However, it became increasingly clear that these efforts would not be enough to maintain current service levels. Therefore, the Board of Selectmen appointed an Override Study Committee (OSC) that was charged with evaluating whether additional revenue capacity was required in order to maintain desired levels of services. The OSC recommended that a question be put on the ballot to increase property taxes, the first time since 1994 that the Town sought a general override. The voters ultimately approved a \$6.2 million override that went toward the following areas:

- Addressing a FY2009 budget deficit (\$2,100,000)
- Lengthening of the school day (\$1,800,000)
- Institution of an Elementary World Language program (\$800,000)
- Investment in infrastructure (\$1,500,000)

Efficiency Initiative Committee (EIC)

While these and other steps have been critical in balancing budgets and maintaining services, the Selectmen determined that the Town should undertake an exhaustive review of how the Town operates in order to yield additional cost savings possibilities. The Selectmen therefore appointed an Efficiency Initiative Committee (EIC), which has been charged with developing a long-term plan for pursuing cost savings, including the following:

- Expanded use of technology
- Integration of functions across departments
- Merger of Town / School operations
- Departmental consolidation
- Privatization
- Position reduction

The EIC is expected to report its findings to the Selectmen in time for the FY2010 budget cycle.

Other Post Employment Benefits (OPEB) Task Force

At the same time that the Efficiency Initiatives Committee began its work, another committee, the Other Post Employment Benefits (OPEB) Task Force began a parallel study attempting to address the Town’s unfunded Other Post-Employment Benefits (OPEB) liability. The Selectmen charged the Task Force “to undertake a complete analysis of options for reducing and / or funding the Town’s OPEB liability. The Task Force was further asked to “develop a comprehensive plan to address the issue, with the overriding goal being to substantially reduce OPEB liabilities while preserving affordable, comprehensive coverage options for retirees”.

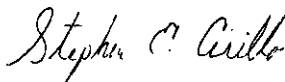
Acknowledgements.

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.

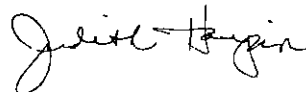
Respectfully submitted,



Richard J. Kelliher
Town Administrator

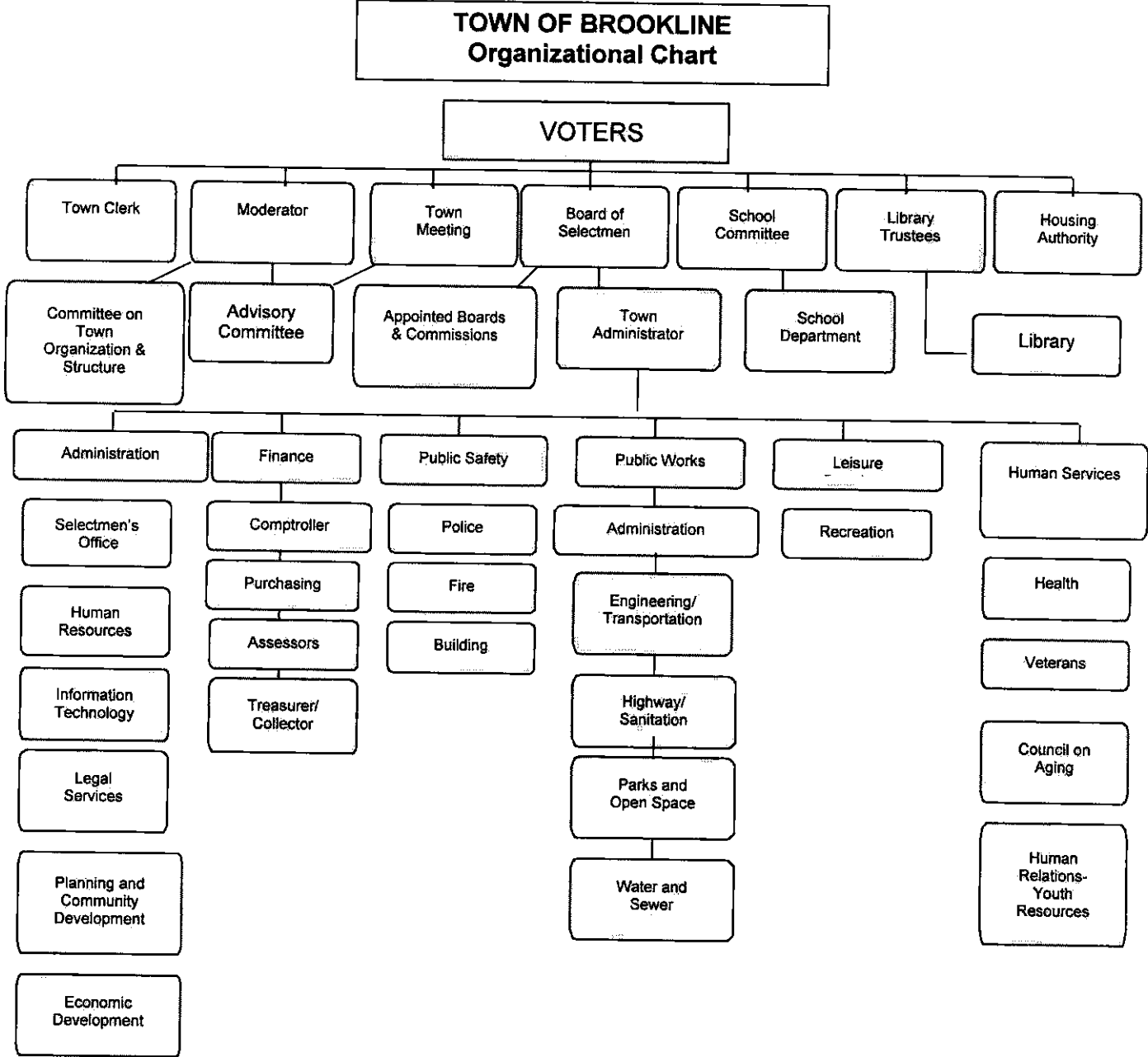


Stephen Cirillo
Finance Director



Judith A. Haupin
Town Comptroller

Organizational Charts



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

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

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the accompanying 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, 2008 (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2007), 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of June 30, 2008 (except for the Brookline Contributory Retirement System which is as of December 31, 2007), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008, on our consideration of the Town of Brookline, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance - general fund – budget and actual, the schedule of funding progress, and the actuarial methods and assumptions located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The letter of transmittal and organizational chart 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.

October 22, 2008

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Brookline, Massachusetts, we offer readers of the Town of Brookline financial statements this narrative overview and analysis of the financial activities of the Town of Brookline for the fiscal year ended June 30, 2008. 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 establishing consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislator and others) can assess the financial condition of one government compared to others.

Government must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. 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, pension benefits, property and liability insurance, fringe benefits, claims and judgments, interest and state and county charges. The business-type activities include water, sewer and golf activities.

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Brookline adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains two types of 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 workers' compensation benefits 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 post employment 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 \$172.6 million at the close of FY2008.

Net assets of \$132.7 million reflect the Town's investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. \$30.2 million represents resources that are subject to external restrictions on expenditures. The remaining balance of *unrestricted net assets* of \$9.7 million may be used to meet the government's ongoing obligations to citizens and creditors.

At this point it is important to note that in accordance with the requirements of Massachusetts finance laws and regulations, all of the unrestricted net assets are required to be reserved for designated purposes except for approximately \$7.1 million, which is the amount classified as "available funds" (also known as "free cash") by the Massachusetts Department of Revenue's Division of Local Services. The remaining unrestricted net assets are either already committed for expenditure or required to be retained for other purposes.

Town of Brookline – Governmental Activities Net Assets

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets. The Town's assets exceeded liabilities by \$172.6 million at the close of fiscal year 2008.

	FY 2008	FY 2007	FY 2006
	<u>Governmental</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Assets:			
Current:			
Cash and cash equivalents.....	\$ 71,447,187	\$ 66,892,976	\$ 73,009,756
Investments.....	9,131,561	9,746,654	8,221,769
Receivables, net of allowance for uncollectibles....	14,023,417	13,208,653	16,919,627
Other current assets.....	2,838,602	2,766,121	2,538,705
Noncurrent assets (excluding capital).....	24,674,000	30,550,600	32,608,600
Capital assets.....	<u>189,751,816</u>	<u>178,551,637</u>	<u>178,033,087</u>
Total assets.....	311,866,583	301,716,641	311,331,544
Liabilities:			
Current (excluding debt):			
Warrants payable.....	3,438,725	1,401,911	2,215,737
Tax refunds payable.....	2,076,000	1,412,000	2,535,000
Compensated absences.....	5,509,081	5,526,658	5,570,154
Other current liabilities.....	6,897,049	6,892,561	5,005,039
Noncurrent (excluding debt):			
Landfill closure.....	14,880,000	12,590,000	12,051,000
Compensated absences.....	3,591,846	3,570,923	3,997,555
Postretirement benefits.....	14,742,618	-	-
Other noncurrent liabilities.....	493,000	420,000	878,986
Current debt.....	15,132,309	7,290,036	16,688,577
Noncurrent debt.....	<u>72,478,223</u>	<u>72,502,532</u>	<u>70,756,569</u>
Total liabilities.....	139,238,851	111,606,621	119,698,617
Net Assets:			
Capital assets net of related debt.....	132,680,075	131,241,683	126,624,544
Restricted.....	30,200,923	29,126,869	24,975,749
Unrestricted.....	<u>9,746,734</u>	<u>29,741,468</u>	<u>40,032,634</u>
Total net assets.....	\$ <u>172,627,732</u>	\$ <u>190,110,020</u>	\$ <u>191,632,927</u>

Net assets from the Town's governmental activities decreased by \$17,482,288 during fiscal year 2008. Key elements of the change are as follows:

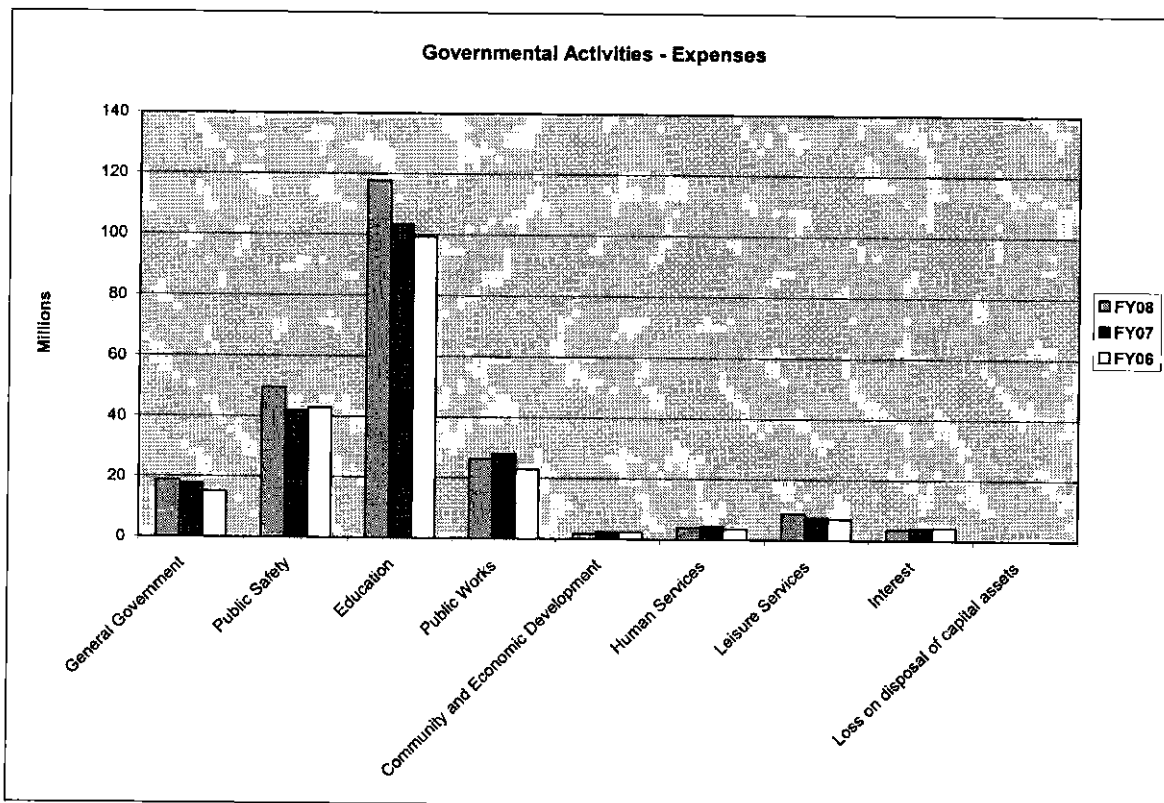
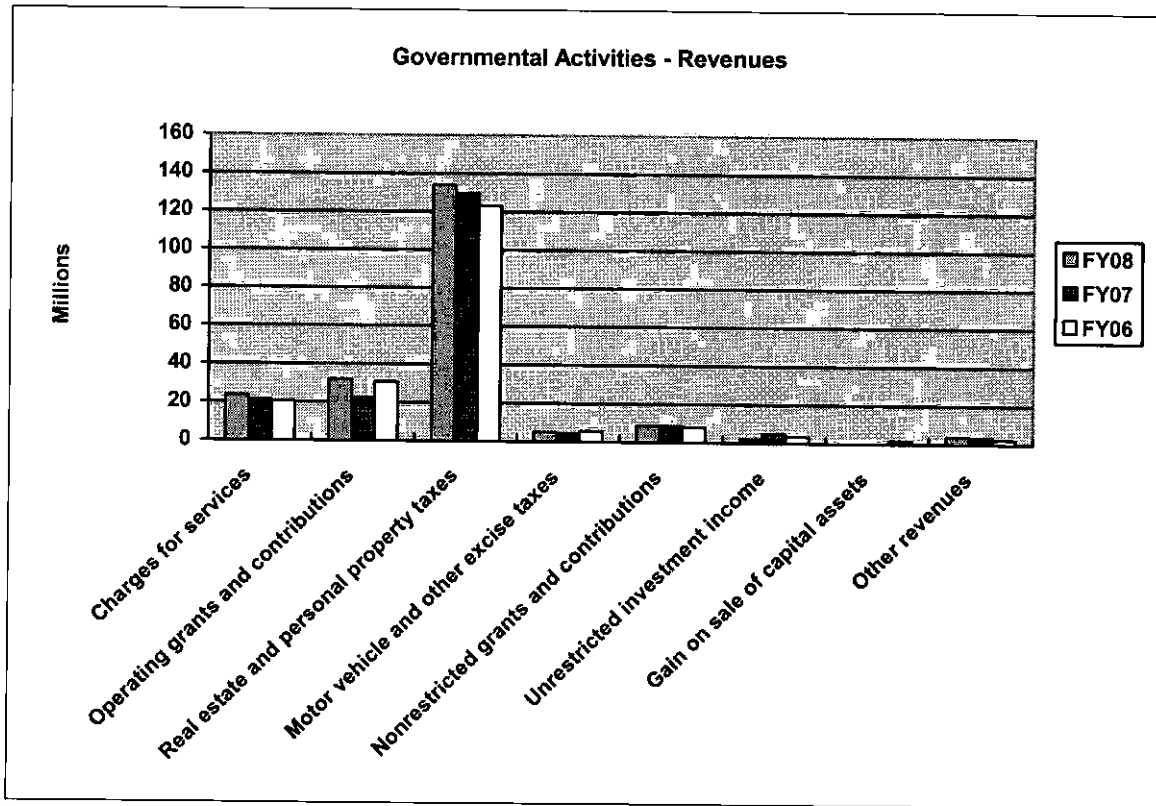
	<i>FY 2008</i> <i>Governmental</i> <i>Activities</i>	<i>FY 2007</i> <i>Governmental</i> <i>Activities</i>	<i>FY 2006</i> <i>Governmental</i> <i>Activities</i>
Program revenues:			
Charges for services.....	\$ 23,620,067	\$ 21,282,214	\$ 20,506,916
Operating grants and contributions.....	33,691,862	33,491,278	30,827,808
General Revenues:			
Real estate and personal property taxes.....	133,903,430	129,604,095	123,144,556
Motor vehicle and other excise taxes.....	5,121,393	4,445,694	5,619,527
Nonrestricted grants and contributions.....	8,728,569	8,703,018	8,005,995
Unrestricted investment income.....	2,143,202	4,863,048	3,484,024
Gain/(loss) on sale of capital assets.....	(48,038)	(42,300)	(821,392)
Other revenues.....	4,038,330	3,538,332	2,587,399
Total revenues.....	211,198,815	205,885,379	193,354,833
Expenses:			
General Government.....	18,827,408	17,819,771	15,082,397
Public Safety.....	49,613,419	41,912,690	42,887,709
Education.....	117,654,934	103,383,387	99,264,800
Public Works.....	26,317,648	28,063,980	22,844,858
Community and Economic Development.....	1,843,404	2,424,921	2,432,429
Human Services.....	3,910,937	4,448,177	3,524,414
Leisure Services.....	8,713,906	7,509,536	6,931,335
Interest.....	3,667,459	4,103,759	4,186,691
Total expenses.....	230,549,115	209,666,221	197,154,633
Transfers In(Out).....	1,868,012	2,257,935	2,339,226
Change in net assets.....	\$ (17,482,288)	\$ (1,522,907)	\$ (1,460,574)

The significant reduction in net assets is due to two factors. The first is the implementation of GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. In fiscal 2008 the Town, based on its actuarial valuation, recognized an accrual of \$14.7 million for its portion of the liability that was not paid.

The other factor is that the landfill closure estimate was increased by \$2.3 million to bring the total to \$14.9 million. This amount is based on estimates of what it would cost to perform all future closure and post closure care in fiscal year 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The governmental expenses totaled \$230.5 million of which \$57.3 million (24.9%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$153.9 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid.

The following tables show the functional sources and uses of Fiscal 2008 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, *unreserved 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 \$59.3 million, of which \$32.2 million is for the general fund, \$252,000 is for the Lawrence School and Longwood Playground major fund, (\$4.9) million is for the Town Hall Renovations major fund, and \$31.6 million is for the nonmajor funds.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance was \$22.6 million, while total fund balance was \$32.2 million. Reservation of fund balance for Encumbrances and Continuing Appropriations totaled \$9.6 million and there was \$5.9 million designated as amounts voted to be used in fiscal 2009. Unreserved fund balance represents 11.7% of total general fund expenditures, while total fund balance represents 16.7% of total general fund expenditures.

The Lawrence School and Longwood Playground fund is used to account for the Town's ongoing school construction project to expand and upgrade school facilities and the related playground. At the end of the current fiscal year, fund balance was \$252,175.

The Town Hall Renovations fund is used to account for the ongoing Town Hall renovation project. At the end of the current fiscal year the fund has an accumulated deficit of (\$4,868,381). This will be funded in future fiscal years by the issuance of long-term bonds.

General Fund Budgetary Highlights

There was approximately a \$141 thousand change between the original and final budget. This change represented the net of an increase in education and a decrease in employee benefits. The Town has elected to carryforward encumbrances and appropriations of \$9.6 million

Business-type Activities. Business-type activities had an increase of \$855,000 in net assets related to the water and sewer operations and an increase of \$302,000 related to the golf course operations, for an overall increase in net assets of \$1,157,000 for the fiscal year.

The following table identifies key elements of the enterprise operations:

	<u>FY 2008</u> <u>Business-type</u> <u>Activities</u>	<u>FY 2007</u> <u>Business-type</u> <u>Activities</u>	<u>FY 2006</u> <u>Business-type</u> <u>Activities</u>
Assets:			
Current:			
Cash and short-term investments.....	\$ 716,921	\$ 313,126	\$ 2,803,438
Receivables, net of allowance for uncollectibles....	6,652,244	6,218,073	6,372,001
Other current assets.....	2,312	(371,982)	(397,207)
Capital assets.....	38,734,555	39,203,435	38,596,083
Total assets.....	46,106,032	45,362,653	47,374,315
Liabilities:			
Current liabilities (excluding debt).....	1,025,928	447,824	544,971
Noncurrent liabilities (excluding debt).....	108,711	112,596	114,897
Current debt.....	2,091,278	2,144,551	7,473,510
Noncurrent debt.....	14,106,775	15,391,054	12,265,104
Total liabilities.....	17,332,692	18,096,025	20,398,482
Net Assets:			
Capital assets net of related debt.....	22,536,502	21,667,830	18,857,469
Unrestricted.....	5,886,838	5,598,798	8,118,364
Total net assets.....	28,423,340	27,266,628	26,975,833
Program revenues:			
Charges for services.....	24,192,458	23,527,304	21,755,205
Operating grants and contributions.....	49,798	57,486	21,134
Capital grants and contributions.....	-	-	337,500
General Revenues:			
Gain/loss on sale of capital assets.....	(7,096)	-	-
Total revenues.....	24,235,160	23,584,790	22,113,839
Expenses:			
Golf.....	786,079	1,006,281	752,000
Water and sewer.....	20,424,357	20,029,779	17,504,969
Total expenses.....	21,210,436	21,036,060	18,256,969
Transfers In/(Out).....	(1,868,012)	(2,257,935)	(2,339,226)
Change in net assets.....	\$ 1,156,712	\$ 290,795	\$ 1,517,644

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, 2008 amount to \$228.5 million (net of depreciation). This investment in capital assets includes land, buildings, improvements to land and buildings, machinery and equipment, vehicles, roads, sidewalks, bridges and water and sewer lines.

The net increase in the Town of Brookline's investment in capital assets for the current year was \$8.5 million, including a \$11,200,000 increase for governmental activities and a (\$462,000) decrease for business-type activities.

The Town's major capital projects relate to school and town hall renovations.

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

- ❖ Approximately \$2.8 million was spent on water, sewer, and surface drainage system construction and replacement.
- ❖ Over \$4.7 million was spent on machinery and equipment.
- ❖ Over \$2.6 million was spent on various land improvements.
- ❖ Over \$2.3 million was spent on building renovations and improvements

Town of Brookline's Capital Assets						
(Net of Depreciation)						
	Governmental		Business –Type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Land	79,727	79,727	-	-	79,727	79,727
Construction in Progress	10,388,639	801,778	-	-	10,388,639	801,778
Land Improvements	12,281,284	10,441,446	988,986	887,633	13,270,270	11,329,249
Buildings	140,588,512	144,050,741	2,785,078	2,882,867	143,373,590	146,933,608
Machinery and Equipment	10,683,963	8,774,142	1,081,986	954,017	11,765,949	9,728,159
Infrastructure	15,729,691	14,403,633	33,878,505	34,478,918	49,608,196	48,882,551
Total	189,751,816	178,551,637	38,734,555	39,203,435	228,486,371	217,755,072

Long-term Debt. At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$96,908,585. Of which \$80,710,532 is governmental debt and \$16,198,053 in business type debt. All of this amount is classified as outstanding long-term debt. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources. During fiscal 2008, the Town retired long term debt of \$9,434,587.

The Town of Brookline issued \$8,910,000 in general obligation bonds to finance several capital improvements. Included in these issues was \$6,900,000 in general obligation bonds for renovations to Town Hall, \$1,260,000 for landfill closure costs, \$600,000 for various sewer projects, and \$150,000 for golf course renovations.

The Town of Brookline issued \$4,205,000 of refunding bonds which were used to defease \$4,100,000 of old general obligation bonds. The Town has decreased its aggregate debt service payments by \$177,657 and will experience an economic gain of \$116,746.

Please see notes 7 and 8 for further debt information.

Requests for Information

This financial report is designed to provide a general overview of the Town of Brookline's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Comptroller at Brookline Town Hall, 333 Washington Street, Brookline, Massachusetts 02146.

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

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 71,447,187	\$ 716,921	\$ 72,164,108
Investments.....	9,131,561	-	9,131,561
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,270,810	-	1,270,810
Tax liens.....	1,313,753	-	1,313,753
Motor vehicle excise taxes.....	42,159	-	42,159
User fees.....	129,764	-	129,764
Water and sewer fees.....	-	6,652,244	6,652,244
Departmental and other.....	4,308,574	-	4,308,574
Intergovernmental.....	6,733,098	-	6,733,098
Loans.....	225,259	-	225,259
Internal balances.....	350,000	(350,000)	-
Other assets.....	2,481,867	-	2,481,867
Prepaid expenses.....	6,735	2,312	9,047
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	24,674,000	-	24,674,000
Capital assets, nondepreciable.....	10,468,366	-	10,468,366
Capital assets, net of accumulated depreciation.....	179,283,450	38,734,555	218,018,005
TOTAL ASSETS.....	311,866,583	45,756,032	357,622,615
LIABILITIES			
CURRENT:			
Warrants payable.....	3,438,725	19,802	3,458,527
Accrued liabilities.....	1,816,457	446	1,816,903
Accrued payroll.....	1,289,477	-	1,289,477
Tax refunds payable.....	2,076,000	-	2,076,000
Accrued interest.....	914,161	169,649	1,083,810
Abandoned property.....	174,317	-	174,317
Other liabilities.....	760,937	-	760,937
Deferred revenue.....	712,599	-	712,599
Customer deposits payable.....	6,101	-	6,101
Compensated absences.....	5,509,081	267,562	5,776,643
Workers' compensation.....	1,223,000	-	1,223,000
Postretirement benefits.....	14,742,618	568,469	15,311,087
Bonds and notes payable.....	15,132,309	2,091,278	17,223,587
NONCURRENT:			
Landfill closure.....	14,880,000	-	14,880,000
Compensated absences.....	3,591,846	108,711	3,700,557
Workers' compensation.....	493,000	-	493,000
Bonds and notes payable.....	72,478,223	14,106,775	86,584,998
TOTAL LIABILITIES.....	139,238,851	17,332,692	156,571,543
NET ASSETS			
Invested in capital assets, net of related debt.....	132,680,075	22,536,502	155,216,577
Restricted for:			
Loans.....	225,259	-	225,259
Permanent funds:			
Expendable.....	4,615,981	-	4,615,981
Nonexpendable.....	1,160,019	-	1,160,019
Other purposes.....	24,199,664	-	24,199,664
Unrestricted.....	9,746,734	5,886,838	15,633,572
TOTAL NET ASSETS.....	\$ 172,627,732	\$ 28,423,340	\$ 201,051,072

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
<i>Governmental Activities:</i>				
General government.....	\$ 18,827,408	\$ 4,124,900	\$ 272,809	\$ (14,429,699)
Public safety.....	49,613,419	8,510,784	344,392	(40,758,243)
Education.....	117,654,934	5,593,668	26,874,926	(85,186,340)
Public works.....	26,317,648	3,446,996	2,312,519	(20,558,133)
Community and economic development....	1,843,404	14,673	1,700,112	(128,619)
Human services.....	3,910,937	22,550	518,900	(3,369,487)
Leisure services.....	8,713,906	1,906,496	392,019	(6,415,391)
Interest.....	3,667,459	-	1,276,185	(2,391,274)
Total Governmental Activities.....	230,549,115	23,620,067	33,691,862	(173,237,186)
<i>Business-Type Activities:</i>				
Golf.....	786,079	1,253,066	-	466,987
Water and sewer.....	20,424,357	22,939,392	49,798	2,564,833
Total Business-Type Activities.....	21,210,436	24,192,458	49,798	3,031,820
Total Primary Government.....	\$ 251,759,551	\$ 47,812,525	\$ 33,741,660	\$ (170,205,366)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (173,237,186)	\$ 3,031,820	\$ (170,205,366)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	133,903,430	-	133,903,430
Motor vehicle and other excise taxes.....	5,121,393	-	5,121,393
Hotel/motel tax.....	742,744	-	742,744
Penalties and interest on taxes.....	455,388	-	455,388
Payments in lieu of taxes.....	907,316	-	907,316
Grants and contributions not restricted to specific programs.....	8,728,569	-	8,728,569
Unrestricted investment income.....	2,143,202	-	2,143,202
Gain/loss on sale of capital assets.....	(48,038)	(7,096)	(55,134)
Miscellaneous.....	1,932,882	-	1,932,882
<i>Transfers, net</i>	1,868,012	(1,868,012)	-
Total general revenues and transfers.....	155,754,898	(1,875,108)	153,879,790
Change in net assets.....	(17,482,288)	1,156,712	(16,325,576)
<i>Net Assets:</i>			
Beginning of year.....	190,110,020	27,266,628	217,376,648
End of year.....	\$ 172,627,732	\$ 28,423,340	\$ 201,051,072

See notes to basic financial statements.

(Concluded)