

TOWN OF BROOKLINE, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2009

TOWN OF BROOKLINE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2009

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TOWN of BROOKLINE

Massachusetts

BOARD OF SELECTMEN

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Letter of Transmittal

December 4, 2009

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, 2009 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, 2009, 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, 2009 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	2012
Superintendent of Schools	William Lupini	Appointed - 3 years	2012
Deputy Town Administrator	Sean Cronin	Appointed - 1 year	2010
Assistant Town Administrator	Melissa Goff	Appointed - 1 year	2010
Finance Director and Treasurer	Stephen Cirillo	Appointed - 1 year	2010
Town Comptroller	Judith Ann Haupin	Appointed - 1 year	2010

Town Clerk	Patrick J. Ward	Elected - 3 years	2012
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 75% 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 8%), transfers from other non-general funds (approximately 4%) 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 84% of the taxes. The Town has been adopting the tax classification authorization that permits it to set two separate tax rates. The current tax rates are:

Residential	\$ 10.69 per thousand
Commercial	\$ 17.32 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 \$14.7 billion) has increased nearly 115% 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 \$ 2.5 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 \$24 million in FY 2010. 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. However, due to the world-wide economic down-turn, government retirement systems experienced significant losses in calendar year 2008. These losses will require the Town to increase dramatically the annual appropriation in FY2012. The estimated range of this increase is between \$1.5 million and \$4.8 million. To offset the anticipated budget impact in FY 2012, the Town plans to ramp up to the higher appropriation over a three year period, beginning in FY 2010.

Utility expenses have skyrocketed since FY2003: the price of electricity has increased 134%; natural gas has increased by 143%; the price of heating oil is 175%; and the price of vehicle fuel is 82% higher. As a result, the Town's total utility budget has doubled since FY 2003 to more than \$5.6 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 an inequitable state revenue-sharing system. In FY2003 and FY2004, local aid was cut by close to \$3 million. In FY10, it was cut \$3.1 million. Since FY03, state aid has realized a cut of nearly 17%, even before accounting for inflation. The current fiscal climate at the state level points to decreases in state aid in fiscal 2011, 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. Along with several other communities in Massachusetts in August, 2009, at a special town meeting, Brookline adopted 2 local options designed to raise local revenues. The first was the adoption of a .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 will become effective on October 1, 2009, and the Town will begin receiving distributions from the Commonwealth on these new funds in December, 2009.

Long-term Financial Planning

The Town continues to manage its financial affairs in a prudent manner. Throughout all of the changes in the economy, increases in expenses and decreased state aid, the Town has maintained its Aaa bond rating. It has done so by incorporating long-range planning tools such as 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 \$147.8 million in capital improvements needed over the next 6 years. Large components of this total include the following:

- ✚ anticipated school projects (\$97.2 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 at least 40% of the costs. At the end of September, the Town was notified that the SBA approved funding equivalent to 40% of eligible expenses for the Runkle School, meaning \$11.8 million of the \$29.1 million project will be paid for by the state. The Town is seeking funding at the 2009 Fall Town Meeting in November for its share 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. If that were to occur, then either the project needs to be reduced or a debt exclusion will be required.
- ✚ upgrade and maintenance of our waste water system (\$5.0 million), which will be borne by the water and sewer rates rather than the tax levy.
- ✚ rehabilitation of the Town's streets and sidewalks (\$15.9 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 \$4.2 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.
- ✦ The closure of the rear landfill (\$4.4 million)
- ✦ Upgrades and rehabilitation of various parks/playgrounds/open spaces (\$10.9 million)

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.

The cash and investment commitments at June 30, 2009 for the funds maintained by the Town's Treasurer are as follows:

General Fund - Unencumbered	\$ 17,783,050
General Fund - Encumbered	5,442,871
Reserved for :	
General Fund -Revenue Funded Capital Project Funds	13,053,648
Special Revenue Funds	10,334,318
Bond Funded Capital Projects Funds	1,515,990
Enterprise Funds	2,349,619
Trust and Agency Funds	26,125,976
	<u>\$ 76,605,472</u>

Of the \$76.6 million in total cash and investments, more than \$53 million is committed to Bond Funded Capital Projects, Enterprise operations, Trust and Agency Funds and Grant funded projects, leaving approximately \$4.7 million unencumbered and not reserved for Revenue Funded Capital Projects within the General Fund.

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 net 30 FTE's from the budget (exclusive of school positions)
- further utilization of contracted services
- 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

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 reported its findings to the Selectmen in January, 2009, and a number of the Committee's recommendations were included in the FY 2010 budget ultimately approved by Town Meeting. The recommendations of the EIC are certain to influence both short-term and long-term budgetary decisions, as they help address the issues of sustainability, which was originally raised by the Override Study Committee (OSC).

Other Post Employment Benefits (OPEB) Task Force

The Other Post Employment Benefits (OPEB) Task Force completed its work in June 2009. The Committee made several recommendations to the Board of Selectmen, which, if implemented, would reduce the long-term OPEB liability. In addition, the Committee made several recommendations regarding the development of a long-term funding strategy to pay down the un-funded liability over a thirty year period. The Town has already adopted one of the funding recommendations, including an annual and escalating appropriation into the Financial Plan, which would generate \$116.5 million over a thirty year period. The Town Administrator is considering another recommendation of the Task Force, to have an employee OPEB assessment included in the annual budget of all enterprise, revolving grant and special funds of the Town and School Departments. If adopted, this would generate an additional \$26.5 million toward the un-funded OPEB liability. In the area of cost containment, the Town continues to engage employee union groups in discussions regarding joining the Massachusetts Insurance Commission (GIC).

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



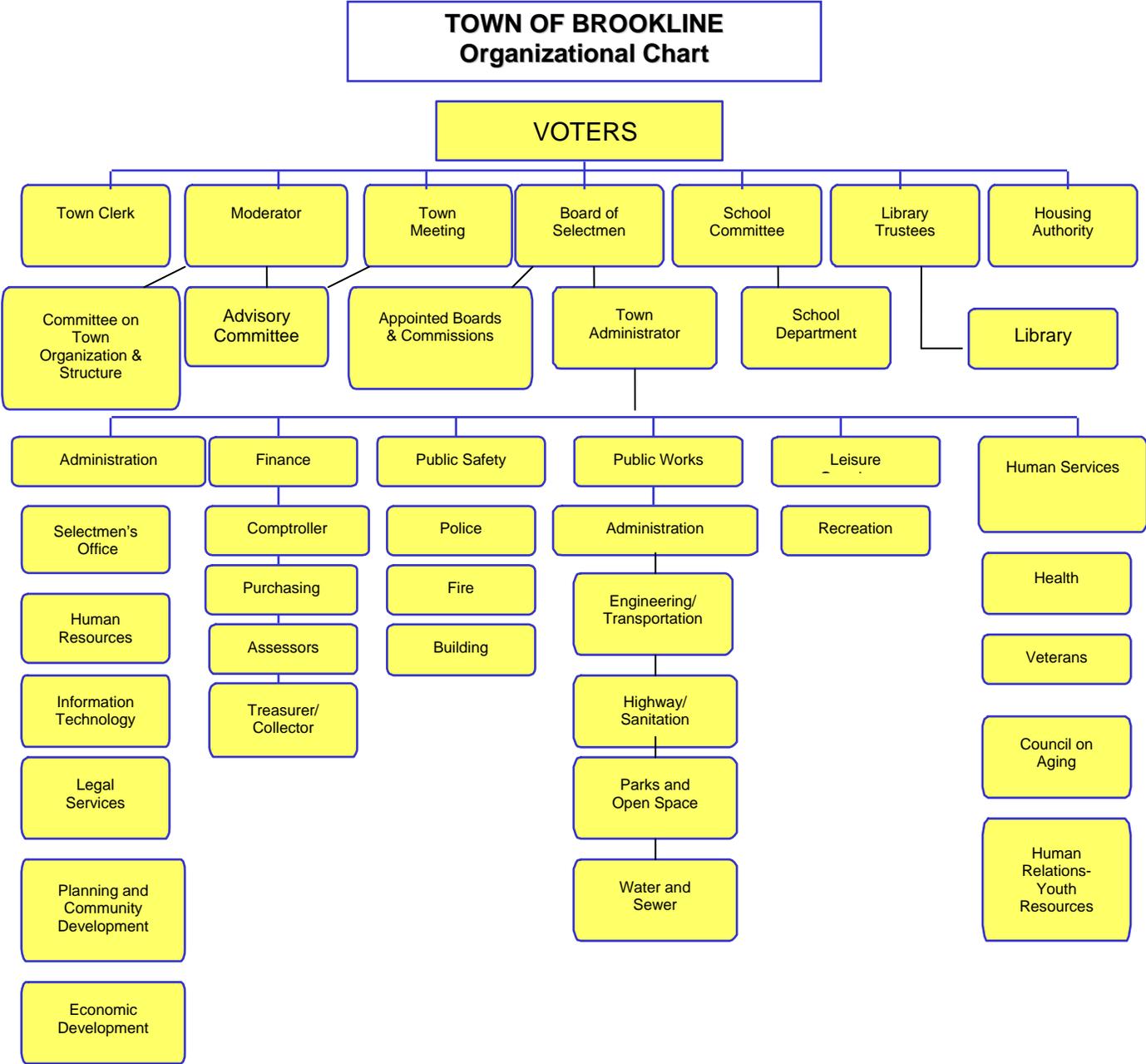
Stephen Cirillo
Finance Director



Judith A. Haupin
Town Comptroller

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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, 2009, 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.

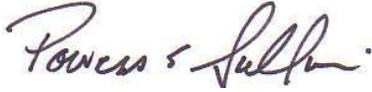
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2009, 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 4, 2009 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 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 cursive script, appearing to read "Powers & Sullivan".

Wakefield, Massachusetts

December 4, 2009

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, 2009. 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, 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, 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 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 \$167.7 million at the close of FY2009.

For the governmental activities, net assets of \$133.9 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. \$33.5 million represents resources that are subject to external restrictions on expenditures. The remaining balance of *unrestricted net assets* of \$254,000 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 \$4.4 million, which is the amount classified as "available funds" (also known as "free cash") by the Massachusetts Department of Revenue's Division of Local Services. The remaining unrestricted net assets are either already committed for expenditure or required to be retained for other purposes.

Governmental Activities Net Assets

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets. The Town's assets exceeded liabilities by \$167.7 million at the close of fiscal year 2009.

	<i>FY 2009</i>	<i>FY 2008</i>	<i>FY 2007</i>
	<i>Governmental</i>	<i>Governmental</i>	<i>Governmental</i>
	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>
Assets:			
Current:			
Cash and cash equivalents.....	\$ 65,868,113	\$ 71,447,187	\$ 66,892,976
Investments.....	9,250,406	9,131,561	9,746,654
Receivables, net of allowance for uncollectibles.....	14,475,980	14,023,415	13,208,653
Other current assets.....	2,816,212	2,838,603	2,766,121
Noncurrent assets (excluding capital).....	22,490,000	24,674,000	30,550,600
Capital assets.....	191,449,243	189,751,816	178,551,637
Total assets.....	306,349,954	311,866,582	301,716,641
Liabilities:			
Current (excluding debt):			
Warrants payable.....	2,830,241	3,438,730	1,401,911
Tax refunds payable.....	1,153,000	2,076,000	1,412,000
Compensated absences.....	5,554,883	5,509,082	5,526,658
Other current liabilities.....	5,338,050	6,897,052	6,892,561
Noncurrent (excluding debt):			
Landfill closure.....	12,030,000	14,880,000	12,590,000
Compensated absences.....	3,603,745	3,591,846	3,570,923
Postretirement benefits.....	25,306,331	14,742,618	-
Other noncurrent liabilities.....	183,000	493,000	420,000
Current debt.....	8,311,177	15,132,309	7,290,036
Noncurrent debt.....	74,307,046	72,478,222	72,502,532
Total liabilities.....	138,617,473	139,238,859	111,606,621
Net Assets:			
Capital assets net of related debt.....	133,933,484	132,680,074	131,241,683
Restricted.....	33,545,176	30,200,923	29,126,869
Unrestricted.....	253,821	9,746,725	29,741,468
Total net assets.....	\$ 167,732,481	\$ 172,627,722	\$ 190,110,020

Net assets from the Town's governmental activities decreased by \$4.9 million during fiscal year 2009. Key elements of the change are as follows:

	FY 2009	FY 2008	FY 2007
	Governmental	Governmental	Governmental
	Activities	Activities	Activities
Program revenues:			
Charges for services.....	\$ 22,629,331	\$ 23,620,058	\$ 21,282,214
Operating grants and contributions.....	35,714,779	33,691,864	33,491,278
General Revenues:			
Real estate and personal property taxes.....	147,735,896	133,903,429	129,604,095
Motor vehicle and other excise taxes.....	5,112,074	5,121,393	4,445,694
Nonrestricted grants and contributions.....	7,874,410	8,728,569	8,703,018
Unrestricted investment income.....	555,446	2,143,201	4,863,048
Gain/(loss) on sale of capital assets.....	(210,848)	(48,038)	(42,300)
Other revenues.....	2,719,047	4,038,330	3,538,332
Total revenues.....	222,130,135	211,198,807	205,885,379
Expenses:			
General Government.....	20,138,908	18,827,430	17,819,771
Public Safety.....	47,394,571	49,613,416	41,912,690
Education.....	122,207,617	117,654,924	103,383,387
Public Works.....	21,759,827	26,317,639	28,063,980
Community and Economic Development.....	1,611,922	1,843,403	2,424,921
Human Services.....	3,723,388	3,910,929	4,448,177
Leisure Services.....	8,165,314	8,713,904	7,509,536
Interest.....	4,017,530	3,667,459	4,103,759
Total expenses.....	229,019,077	230,549,109	209,666,221
Transfers In(Out).....	1,993,691	1,868,012	2,257,935
Change in net assets.....	\$ (4,895,251)	\$ (17,482,290)	\$ (1,522,907)

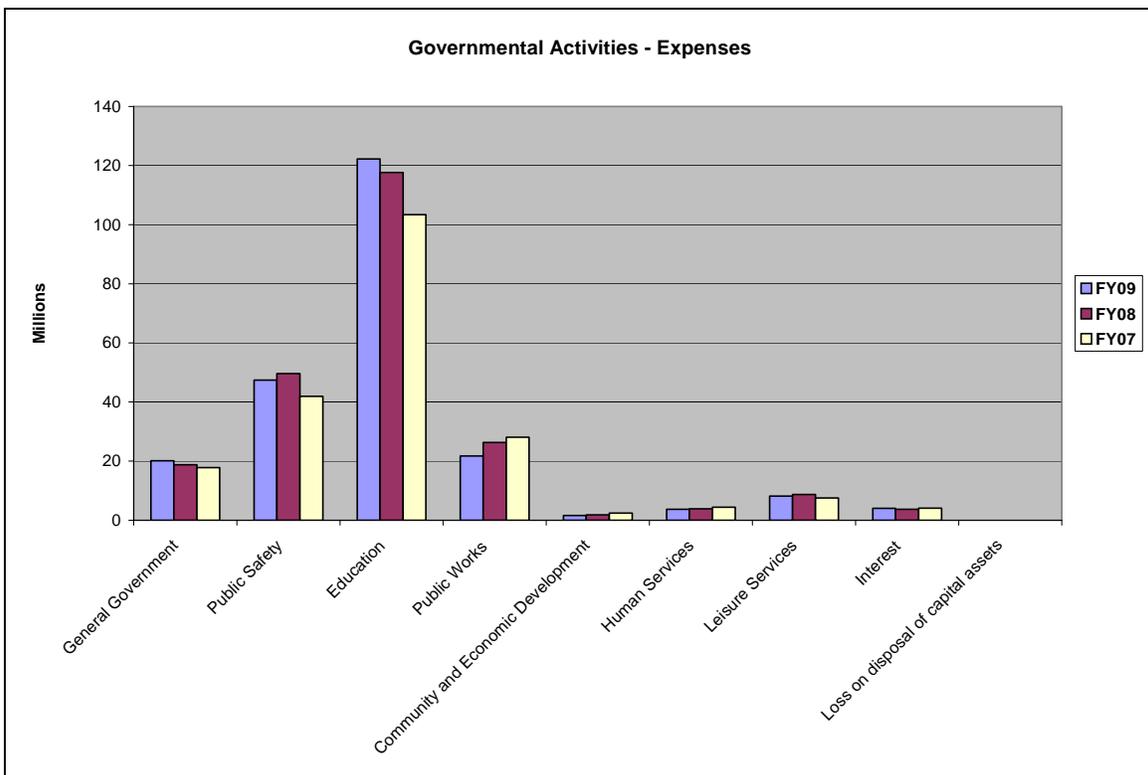
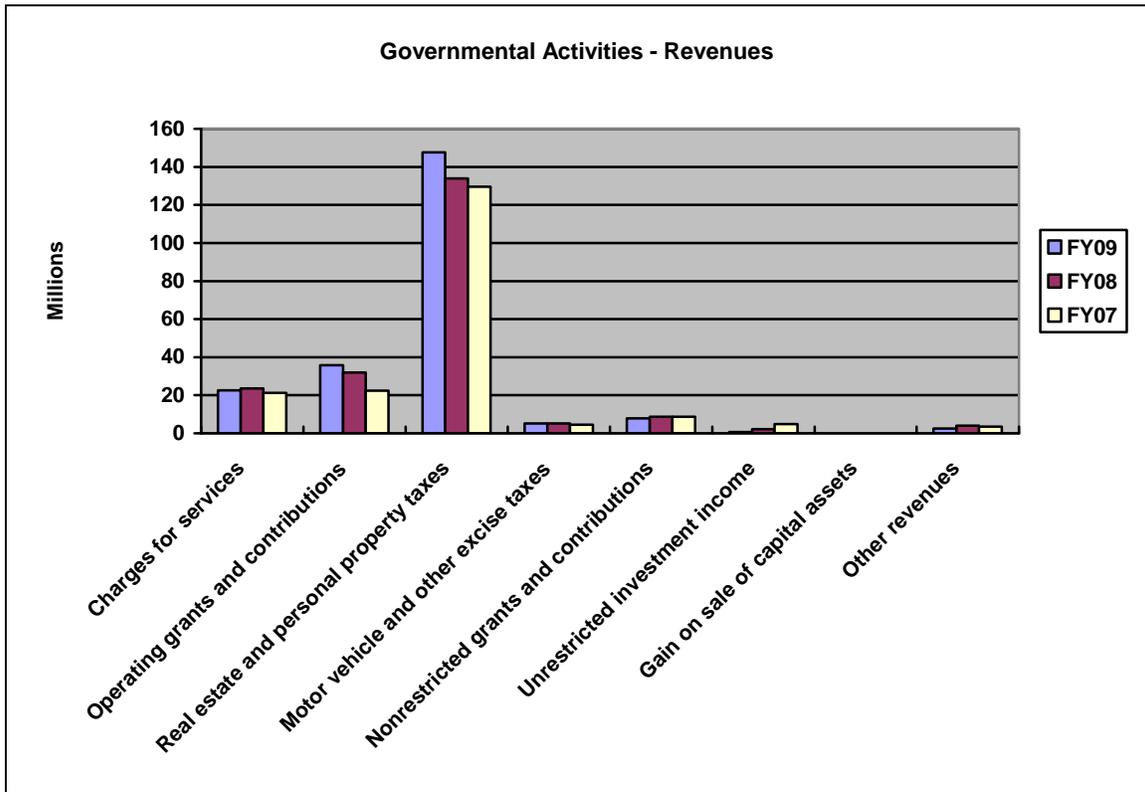
The reduction in net assets is due to several factors. The first is the increase in the liability relating to GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This requires the recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. In fiscal 2009 the Town, based on its actuarial valuation, reported an accrual of \$25.3 million for its portion of the liability that was not paid. This represents an increase of \$10.6 million over the prior fiscal year.

The second factor is that the landfill closure estimate was reduced by \$2.9 million to bring the total to \$12.0 million. This amount is based on estimates of what it would cost to perform all future closure and post closure care in fiscal year 2009. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Total governmental debt, short-term and long-term, decreased by \$4.9 million and principal payments were less than depreciation expense by \$2.8 million.

The governmental expenses totaled \$229 million of which \$58.3 million (25.5%) was directly supported by program revenues consisting of charges for services, operating grants and contributions. General revenues totaled \$163.8 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 2009 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 \$63.5 million, of which \$34.4 million is for the general fund, \$4,827 is for the Town Hall Renovations major fund, and \$29.1 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 \$19.7 million, while total fund balance was \$34.4 million. Reservation of fund balance for Encumbrances and Continuing Appropriations totaled \$14.7 million and there was \$7.0 million designated as amounts voted to be used in fiscal 2010. Unreserved, undesignated fund balance represents 6% of total general fund expenditures, while total fund balance represents 17% of total general fund expenditures.

Fund balance of the General Fund increased by \$2.1 million during fiscal year 2009. This is primarily due to management's ability to monitor budgetary results during the year and its goal of maintaining the Town's strong financial position.

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 a fund balance of \$4,827. This project is winding down and Town Hall offices are in use.

The State Fiscal Stabilization Grant Fund is used to account for federal funds that were received through the American Recovery and Reinvestment Act. During the last two months of the fiscal year, the Town's state aid was reduced by \$786,000. However, the state aid payment was replaced with a like amount of federal funds. The Town's general fund budget was not adjusted for the late reduction in state funding; rather, eligible expenditures were transferred from the general fund to the state fiscal stabilization grant fund where an equal amount of federal revenues were also recorded.

General Fund Budgetary Highlights

There was approximately a \$268,000 change between the original and final budget. This change represented the net of an increase in education and a reduction in debt service. The Town has elected to carryforward encumbrances and appropriations of \$14.7 million

During the last two months of the fiscal year, additional cuts in state aid were approved by the state, which reduced the June 30th state aid payment to the Town by \$786,000 and replaced it with a like amount of federal stimulus funds. The Town's general fund budget was not adjusted for the late adjustment in state funding; rather, eligible expenditures were transferred from the general fund to a state fiscal stabilization grant fund where the federal revenues were also recorded. This resulted in a revenue deficit and a corresponding under-expenditure in the applicable line items.

Business-type Activities. Business-type activities decreased by (\$747,000). Key elements of this decrease are as follows:

	<u>FY 2009</u> <u>Business-type</u> <u>Activities</u>	<u>FY 2008</u> <u>Business-type</u> <u>Activities</u>	<u>FY 2007</u> <u>Business-type</u> <u>Activities</u>
Assets:			
Current:			
Cash and short-term investments.....	\$ 1,190,194	\$ 716,921	\$ 313,126
Receivables, net of allowance for uncollectibles.....	5,447,808	6,652,243	6,218,073
Other current assets.....	2,096	2,312	(371,982)
Capital assets.....	38,330,229	38,734,555	39,203,435
Total assets.....	44,970,327	46,106,032	45,362,653
Liabilities:			
Current liabilities (excluding debt).....	1,497,299	1,025,928	447,824
Noncurrent liabilities (excluding debt).....	106,702	108,711	112,596
Current debt.....	2,081,323	2,091,278	2,144,551
Noncurrent debt.....	13,275,452	14,106,775	15,391,054
Total liabilities.....	16,960,776	17,332,691	18,096,025
Net Assets:			
Capital assets net of related debt.....	22,973,454	22,536,502	21,667,830
Unrestricted.....	4,703,068	5,886,839	5,598,798
Total net assets.....	27,676,522	28,423,341	27,266,628
Program revenues:			
Charges for services.....	22,930,319	24,192,457	23,527,304
Operating grants and contributions.....	-	49,798	57,486
General Revenues:			
Unrestricted investment income.....	9,902	-	-
Gain/loss on sale of capital assets.....	(22,577)	(7,096)	-
Total revenues.....	22,917,644	24,235,159	23,584,790
Expenses:			
Golf.....	997,585	786,078	1,006,281
Water and sewer.....	20,673,186	20,424,356	20,029,779
Total expenses.....	21,670,771	21,210,434	21,036,060
Transfers In/(Out).....	(1,993,691)	(1,868,012)	(2,257,935)
Change in net assets.....	\$ (746,818)	\$ 1,156,713	\$ 290,795

The water and sewer enterprise net assets decreased by (\$772,000) during the current fiscal year. This was primarily attributable to the increase in the liability relating to GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. In fiscal 2009, the water and sewer enterprise fund reported an accrual of \$946,000 which represents an increase of \$395,000 over the prior fiscal year.

The golf enterprise net assets increased by \$25,000 during the current fiscal year. This 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. Since FY95, the Town has invested \$277 million in the CIP. Although there is 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 5 year view. The FY09 – FY14 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, including the policy that states an amount equivalent to 5.5% of the prior year's net revenue be dedicated to the CIP, the CIP incorporated a number of major projects along with a financing plan that includes outside funding sources and grant opportunities. The CIP called for an investment of \$141.9 million over the next six years, for an average of \$23.6 million per year.

It was a challenge to prepare a CIP that both complies with the Town's CIP financing policies and funds major facility rehabilitation projects in an environment that is best described as uncertain in terms of state assistance for school building projects. Further complicating this challenge was the need to fund new requests, most notably the need to fund expenses associated with the removal and restoration of certain soils around the Newton St. Landfill and to ensure on-going compliance with Department of Environmental Protection (DEP) guidelines with respect to restoring the effected properties. In addition, important requests were made that form the basis of a systematic, long-term plan for various needed preventative facility improvements.

Funding for the CIP comes from both debt and revenue based sources. At the May, 2009 Town Meeting, it was voted to transfer the Revenue funded capital projects from the General Fund to a separate Revenue-Funded Capital class in fiscal 2010. This was done at the request of the auditor and will bring our recording and reporting into conformity with the majority of communities in Massachusetts, and will result in a transfer of nearly \$13.5 million from the General Fund Balance account to the Revenue Funded Capital Fund Group.

The following schedule reflects the CIP expenditure activity for fiscal 2009, together with outstanding encumbrances and available budget balances, for both Debt and Revenue Funded Capital Projects.

Fiscal 2009 Schedule of Capital Improvement Plan Expenditures, Encumbrances and Available Budget

	<u>Revenue Financed Projects</u>			<u>Debt Financed Projects</u>		
	Expended in		Available	Expended in		Available
	<u>Fiscal 2009</u>	<u>Encumbrances</u>	<u>Budget</u>	<u>Fiscal 2009</u>	<u>Encumbrances</u>	<u>Budget</u>
General Government Capital Projects						
General Government Projects	25,622	5,329	3,388	-	-	-
Planning Projects	43,911	181,668	1,411	-	-	-
Technology Projects	365,258	26,103	58,927	-	-	-
Building & Public Safety Projects						
General Town Building Projects	1,832,452	197,868	921,827	3,780,487	4,827	-
Public Safety Building & Equipment Projects	445,706	120,203	155,604	-	-	-
Library Building Projects	30,802	487,398	360,499	-	-	-
Recreation Building Projects	169,345	19,581	2,973	1,500	4,613	-
Health Building Projects	16,330	-	827	-	-	-
DPW Building Projects	13,520	300	40,696	-	-	-
School Building Projects	611,757	310,565	715,971	2,585,552	357,757	261,976
School Projects	149,877	-	123			
DPW Projects						
Landfill Related Projects	184,991	338,039	2,494,003	1,360,503	176,525	105,547
General DPW Projects	119,395	-	30,000	-	-	-
Highway -Traffic Related Projects	1,925,908	1,204,046	1,644,324	126,672	77,647	-
Park Related Projects	1,109,389	523,773	2,527,165	-	-	2,095,000
Recreation-Library Projects						
Library Projects	64,423	330,577	185,000	-	-	-
DPW Enterprise Related Projects	16,441		150,000	846,531	534,352	5,243,296
Golf Enterprise Projects				43,813	-	1,448,064
GRAND TOTAL	7,125,128	3,745,449	9,292,737	8,745,058	1,155,721	9,153,884

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, 2009 amount to \$229.8 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 \$1.3 million, including a \$1.7 million increase for governmental activities and a (\$404) thousand 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 \$2.1 million was spent on water, sewer, and surface drainage system construction and replacement.
- ❖ Over \$2.3 million was spent on machinery and equipment.
- ❖ Over \$1.3 million was spent on various land improvements.
- ❖ Over \$7.2 million was spent on building renovations and improvements.

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

	Governmental		Business –Type		Total	
	Activities		Activities		2009	2008
	2009	2008	2009	2008		
Land	79,727	79,727	-	-	79,727	79,727
Construction in Progress	-	10,388,639	-	-	-	10,388,639
Land Improvements	12,760,937	12,281,284	989,263	988,986	13,750,200	13,270,270
Buildings	152,008,183	140,588,512	2,699,008	2,785,078	154,707,191	143,373,590
Machinery and Equipment	10,217,396	10,683,963	1,004,206	1,081,986	11,221,602	11,765,949
Infrastructure	16,383,000	15,729,691	33,637,752	33,878,505	50,020,752	49,608,196
Total	191,449,243	189,751,816	38,330,229	38,734,555	229,779,472	228,486,371

Long-term Debt. At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$97,974,998. Of which \$82,618,223 is governmental debt and \$15,356,775 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 2009, the Town retired long term debt of \$10,323,587.

The Town of Brookline issued \$11,390,000 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, \$2,500,000 for painting and roofing the high school, \$740,000 for landfill closure costs, and \$1,250,000 for various water and sewer projects.

Please see notes 7 and 8 for further debt information.

Cash and Investments

At June 30, 2009, the Town had recorded a Cash and Investments balance of \$76,605,472. Additional adjustments for accounts not maintained by the Treasurer, but included in overall financial statement cash, were Library Cash (\$261,778) and Investment accounts (\$2,989,013) maintained by the Trustees of the Brookline Public Library; and Retirement Cash (\$1,766,503) and Investment accounts (\$157,799,983) maintained by the Brookline Retirement System. This resulted in total Cash and Investments of \$239,422,749 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.town.brookline.ma.us/>.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2009

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 65,868,113	\$ 1,190,194	\$ 67,058,307
Investments.....	9,250,406	-	9,250,406
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,581,667	-	1,581,667
Tax liens.....	1,273,607	-	1,273,607
Motor vehicle excise taxes.....	126,332	-	126,332
User fees.....	138,300	-	138,300
Water and sewer fees.....	-	5,447,808	5,447,808
Departmental and other.....	3,688,376	-	3,688,376
Intergovernmental.....	7,473,632	-	7,473,632
Loans.....	194,066	-	194,066
Internal balances.....	325,000	(325,000)	-
Prepaid expenses.....	2,491,212	2,096	2,493,308
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	22,490,000	-	22,490,000
Capital assets, nondepreciable.....	79,727	-	79,727
Capital assets, net of accumulated depreciation.....	191,369,516	38,330,229	229,699,745
TOTAL ASSETS.....	306,349,954	44,645,327	350,995,281
LIABILITIES			
CURRENT:			
Warrants payable.....	2,830,241	82,333	2,912,574
Accrued liabilities.....	47,997	5,350	53,347
Accrued payroll.....	1,448,460	-	1,448,460
Tax refunds payable.....	1,153,000	-	1,153,000
Accrued interest.....	896,592	157,231	1,053,823
Abandoned property.....	185,085	-	185,085
Other liabilities.....	967,811	8,029	975,840
Deferred revenue.....	591,164	-	591,164
Customer deposits payable.....	3,941	-	3,941
Compensated absences.....	5,554,883	276,584	5,831,467
Workers' compensation.....	1,197,000	-	1,197,000
Bonds and notes payable.....	8,311,177	2,081,323	10,392,500
NONCURRENT:			
Landfill closure.....	12,030,000	-	12,030,000
Compensated absences.....	3,603,745	106,702	3,710,447
Workers' compensation.....	183,000	-	183,000
Postretirement benefits.....	25,306,331	975,801	26,282,132
Bonds and notes payable.....	74,307,046	13,275,452	87,582,498
TOTAL LIABILITIES.....	138,617,473	16,968,805	155,586,278
NET ASSETS			
Invested in capital assets, net of related debt.....	133,933,484	22,973,454	156,906,938
Restricted for:			
Loans.....	194,066	-	194,066
Permanent funds:			
Expendable.....	3,718,074	-	3,718,074
Nonexpendable.....	1,176,359	-	1,176,359
Other purposes.....	28,456,677	-	28,456,677
Unrestricted.....	253,821	4,703,068	4,956,889
TOTAL NET ASSETS.....	\$ 167,732,481	\$ 27,676,522	\$ 195,409,003

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2009

Functions/Programs	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:				
<i>Governmental Activities:</i>				
General government.....	\$ 20,138,908	\$ 3,713,372	\$ 1,155,542	\$ (15,269,994)
Public safety.....	47,394,571	8,302,197	319,685	(38,772,689)
Education.....	122,207,617	5,729,467	27,673,492	(88,804,658)
Public works.....	21,759,827	3,273,612	2,546,314	(15,939,901)
Community and economic development....	1,611,922	-	1,562,361	(49,561)
Human services.....	3,723,388	20,725	1,121,853	(2,580,810)
Leisure services.....	8,165,314	1,589,958	179,160	(6,396,196)
Interest.....	4,017,530	-	1,156,372	(2,861,158)
Total Governmental Activities.....	<u>229,019,077</u>	<u>22,629,331</u>	<u>35,714,779</u>	<u>(170,674,967)</u>
<i>Business-Type Activities:</i>				
Golf.....	997,585	1,176,267	-	178,682
Water and sewer.....	<u>20,673,186</u>	<u>21,754,052</u>	-	<u>1,080,866</u>
Total Business-Type Activities.....	<u>21,670,771</u>	<u>22,930,319</u>	-	<u>1,259,548</u>
Total Primary Government.....	<u>\$ 250,689,848</u>	<u>\$ 45,559,650</u>	<u>\$ 35,714,779</u>	<u>\$ (169,415,419)</u>

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (170,674,967)	\$ 1,259,548	\$ (169,415,419)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	147,735,896	-	147,735,896
Motor vehicle and other excise taxes.....	5,112,074	-	5,112,074
Hotel/motel tax.....	788,531	-	788,531
Penalties and interest on taxes.....	494,311	-	494,311
Payments in lieu of taxes.....	989,282	-	989,282
Grants and contributions not restricted to specific programs.....	7,874,410	-	7,874,410
Unrestricted investment income.....	555,446	9,902	565,348
Gain (loss) on disposal of capital assets.....	(210,848)	(22,577)	(233,425)
Miscellaneous.....	446,923	-	446,923
<i>Transfers, net</i>	1,993,691	(1,993,691)	-
Total general revenues and transfers.....	<u>165,779,716</u>	<u>(2,006,366)</u>	<u>163,773,350</u>
Change in net assets.....	(4,895,251)	(746,818)	(5,642,069)
<i>Net Assets:</i>			
Beginning of year.....	<u>172,627,732</u>	<u>28,423,340</u>	<u>201,051,072</u>
End of year.....	\$ <u><u>167,732,481</u></u>	\$ <u><u>27,676,522</u></u>	\$ <u><u>195,409,003</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2009

ASSETS	General	Town Hall Renovations	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 36,279,572	\$ 4,827	\$ 26,481,003	\$ 62,765,402
Investments.....	-	-	3,975,233	3,975,233
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,581,667	-	-	1,581,667
Tax liens.....	1,273,607	-	-	1,273,607
Motor vehicle excise taxes.....	126,332	-	-	126,332
User fees.....	138,300	-	-	138,300
Departmental and other.....	3,565,882	-	122,494	3,688,376
Intergovernmental.....	24,674,000	-	5,289,632	29,963,632
Loans.....	-	-	194,066	194,066
Due from other funds.....	325,000	-	-	325,000
Prepaid expenses.....	2,484,432	-	6,780	2,491,212
TOTAL ASSETS.....	\$ 70,448,792	\$ 4,827	\$ 36,069,208	\$ 106,522,827
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 1,196,463	\$ -	\$ 1,616,759	\$ 2,813,222
Accrued liabilities.....	23,473	-	24,524	47,997
Accrued payroll.....	1,426,032	-	22,428	1,448,460
Tax refunds payable.....	1,153,000	-	-	1,153,000
Liabilities due depositors.....	3,941	-	-	3,941
Abandoned property.....	179,088	-	5,997	185,085
Other liabilities.....	934,221	-	33,590	967,811
Deferred revenues.....	31,139,539	-	5,244,628	36,384,167
TOTAL LIABILITIES.....	36,055,757	-	6,947,926	43,003,683
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	14,735,607	-	-	14,735,607
Loans.....	-	-	194,066	194,066
Perpetual permanent funds.....	-	-	1,176,359	1,176,359
Unreserved:				
Designated for subsequent year's expenditures.....	7,053,295	-	-	7,053,295
Undesignated, reported in:				
General fund.....	12,604,133	-	-	12,604,133
Special revenue funds.....	-	-	23,609,146	23,609,146
Capital projects funds.....	-	4,827	423,637	428,464
Permanent funds.....	-	-	3,718,074	3,718,074
TOTAL FUND BALANCES.....	34,393,035	4,827	29,121,282	63,519,144
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 70,448,792	\$ 4,827	\$ 36,069,208	\$ 106,522,827

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, 2009

Total governmental fund balances.....		\$ 63,519,144
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		191,449,243
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		35,793,003
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.....		6,980,865
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(896,592)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(82,618,223)	
Landfill closure.....	(12,030,000)	
Postretirement benefits.....	(25,306,331)	
Compensated absences.....	(9,158,628)	
Net effect of reporting long-term liabilities.....		(129,113,182)
Net assets of governmental activities.....		\$ 167,732,481

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2009

	General	Town Hall Renovations	Federal American Recovery & Reinvestment Act	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 147,553,179	\$ -	\$ -	\$ -	\$ 147,553,179
Motor vehicle and other excise taxes.....	5,027,901	-	-	-	5,027,901
Hotel/motel tax.....	788,531	-	-	-	788,531
Charges for services.....	5,006,364	-	-	-	5,006,364
Penalties and interest on taxes.....	494,311	-	-	-	494,311
Payments in lieu of taxes.....	989,282	-	-	-	989,282
Licenses and permits.....	3,227,512	-	-	-	3,227,512
Fines and forfeitures.....	4,518,301	-	-	-	4,518,301
Intergovernmental.....	31,343,464	-	785,908	10,941,794	43,071,166
Departmental and other.....	599,320	-	-	10,358,589	10,957,909
Contributions.....	-	-	-	1,757,086	1,757,086
Investment income (loss).....	942,808	-	-	(596,513)	346,295
TOTAL REVENUES.....	200,490,973	-	785,908	22,460,956	223,737,837
EXPENDITURES:					
Current:					
General government.....	9,732,504	2,026,792	785,908	482,190	13,027,394
Public safety.....	34,348,558	-	-	566,721	34,915,279
Education.....	68,772,169	-	-	16,866,835	85,639,004
Public works.....	17,233,710	-	-	3,595,401	20,829,111
Community and economic development.....	-	-	-	1,611,922	1,611,922
Human services.....	2,283,624	-	-	354,467	2,638,091
Leisure services.....	4,683,332	-	-	1,436,118	6,119,450
Pension benefits.....	24,397,914	-	-	-	24,397,914
Fringe benefits.....	24,714,243	-	-	-	24,714,243
State and county charges.....	5,493,891	-	-	-	5,493,891
Debt service:					
Principal.....	8,232,309	-	-	-	8,232,309
Interest.....	4,035,097	-	-	-	4,035,097
TOTAL EXPENDITURES.....	203,927,351	2,026,792	785,908	24,913,654	231,653,705
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,436,378)	(2,026,792)	-	(2,452,698)	(7,915,868)
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes.....	-	6,900,000	-	3,240,000	10,140,000
Transfers in.....	5,630,070	-	-	47,554	5,677,624
Transfers out.....	(47,282)	-	-	(3,636,651)	(3,683,933)
TOTAL OTHER FINANCING SOURCES (USES).....	5,582,788	6,900,000	-	(349,097)	12,133,691
NET CHANGE IN FUND BALANCES.....	2,146,410	4,873,208	-	(2,801,795)	4,217,823
FUND BALANCES AT BEGINNING OF YEAR.....	32,246,625	(4,868,381)	-	31,923,077	59,301,321
FUND BALANCES AT END OF YEAR.....	\$ 34,393,035	\$ 4,827	\$ -	\$ 29,121,282	\$ 63,519,144

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, 2009

Net change in fund balances - total governmental funds.....		\$ 4,217,823
<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.....	12,984,330	
Depreciation expense.....	<u>(11,076,055)</u>	
Net effect of reporting capital assets.....		1,908,275
<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>		
		(210,848)
<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>		
		(1,606,004)
<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.....	(10,140,000)	
Debt service principal payments.....	<u>8,232,309</u>	
Net effect of reporting long-term debt.....		(1,907,691)
<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.....	(57,701)	
Net change in accrued interest on long-term debt.....	17,568	
Net change in postretirement benefit accrual.....	(10,563,713)	
Net change in landfill accrual.....	<u>2,850,000</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(7,753,846)
<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>457,040</u>
Change in net assets of governmental activities.....		<u>\$ (4,895,251)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 928,684	\$ 261,510	\$ 1,190,194	\$ 3,102,711
Investments.....	-	-	-	5,275,173
Receivables, net of allowance for uncollectibles:				
Water and sewer fees.....	5,447,808	-	5,447,808	-
Prepaid expenses.....	2,066	30	2,096	-
Total current assets.....	6,378,558	261,540	6,640,098	8,377,884
NONCURRENT:				
Capital assets, net of accumulated depreciation.....	36,158,216	2,172,013	38,330,229	-
TOTAL ASSETS.....	42,536,774	2,433,553	44,970,327	8,377,884
LIABILITIES				
CURRENT:				
Warrants payable.....	40,762	41,571	82,333	17,019
Accrued liabilities.....	-	5,350	5,350	-
Accrued interest.....	151,827	5,404	157,231	-
Due to other funds.....	-	325,000	325,000	-
Other liabilities.....	-	8,029	8,029	-
Compensated absences.....	230,525	46,059	276,584	-
Workers' compensation.....	-	-	-	1,197,000
Bonds and notes payable.....	1,941,323	140,000	2,081,323	-
Total current liabilities.....	2,364,437	571,413	2,935,850	1,214,019
NONCURRENT:				
Compensated absences.....	92,232	14,470	106,702	-
Workers' compensation.....	-	-	-	183,000
Postretirement benefits.....	946,248	29,553	975,801	-
Bonds and notes payable.....	12,540,452	735,000	13,275,452	-
Total noncurrent liabilities.....	13,578,932	779,023	14,357,955	183,000
TOTAL LIABILITIES.....	15,943,369	1,350,436	17,293,805	1,397,019
NET ASSETS				
Invested in capital assets, net of related debt.....	21,676,441	1,297,013	22,973,454	-
Unrestricted.....	4,916,964	(213,896)	4,703,068	6,980,865
TOTAL NET ASSETS.....	\$ 26,593,405	\$ 1,083,117	\$ 27,676,522	\$ 6,980,865

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
OPERATING REVENUES:				
Employee contributions	\$ -	\$ -	\$ -	\$ 693,451
Employer contributions	-	-	-	2,640,656
Charges for services	21,754,052	1,176,267	22,930,319	-
TOTAL OPERATING REVENUES	21,754,052	1,176,267	22,930,319	3,334,107
OPERATING EXPENSES:				
Cost of services and administration	19,131,653	855,352	19,987,005	-
Depreciation	946,034	102,138	1,048,172	-
Building insurance	-	-	-	1,297,365
Employee benefits	-	-	-	1,788,853
TOTAL OPERATING EXPENSES	20,077,687	957,490	21,035,177	3,086,218
OPERATING INCOME (LOSS)	1,676,365	218,777	1,895,142	247,889
NONOPERATING REVENUES (EXPENSES):				
Investment income	-	9,902	9,902	209,151
Interest expense	(595,499)	(40,095)	(635,594)	-
Loss on disposal of capital assets	(22,577)	-	(22,577)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(618,076)	(30,193)	(648,269)	209,151
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,058,289	188,584	1,246,873	457,040
OPERATING TRANSFERS:				
Transfers in	47,282	-	47,282	-
Transfers out	(1,877,687)	(163,286)	(2,040,973)	-
TOTAL OPERATING TRANSFERS	(1,830,405)	(163,286)	(1,993,691)	-
CHANGE IN NET ASSETS	(772,116)	25,298	(746,818)	457,040
NET ASSETS AT BEGINNING OF YEAR	27,365,521	1,057,819	28,423,340	6,523,825
NET ASSETS AT END OF YEAR	\$ 26,593,405	\$ 1,083,117	\$ 27,676,522	\$ 6,980,865

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from customers and users.....	\$ 22,958,488	\$ 1,176,267	\$ 24,134,755	\$ -
Receipts from interfund services provided.....	-	-	-	3,334,107
Payments to vendors.....	(16,645,667)	(381,575)	(17,027,242)	(3,457,484)
Payments to employees.....	(2,063,404)	(431,334)	(2,494,738)	-
NET CASH FROM OPERATING ACTIVITIES.....	4,249,417	363,358	4,612,775	(123,377)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Transfers in.....	47,282	-	47,282	-
Transfers out.....	(1,877,687)	(163,286)	(2,040,973)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,830,405)	(163,286)	(1,993,691)	-
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Proceeds from the issuance of bonds and notes.....	1,250,000	-	1,250,000	-
Acquisition and construction of capital assets.....	(622,610)	(43,813)	(666,423)	-
Principal payments on bonds and notes.....	(1,951,278)	(140,000)	(2,091,278)	-
Interest expense.....	(607,197)	(40,815)	(648,012)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES...	(1,931,085)	(224,628)	(2,155,713)	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Purchase of investments.....	-	-	-	(926,102)
Investment income.....	-	9,902	9,902	209,151
NET CASH FROM INVESTING ACTIVITIES.....	-	9,902	9,902	(716,951)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	487,927	(14,654)	473,273	(840,328)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	440,757	276,164	716,921	3,943,039
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 928,684	\$ 261,510	\$ 1,190,194	\$ 3,102,711
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>				
Operating income (loss).....	\$ 1,676,365	\$ 218,777	\$ 1,895,142	\$ 247,889
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	946,034	102,138	1,048,172	-
Changes in assets and liabilities:				
Charges for services receivable.....	1,204,436	-	1,204,436	-
Internal balances.....	-	(25,000)	(25,000)	-
Prepaid expenses.....	114	102	216	-
Warrants payable.....	28,688	33,843	62,531	(35,266)
Postretirement benefits.....	394,996	12,336	407,332	-
Accrued liabilities.....	-	4,904	4,904	-
Other liabilities.....	-	8,029	8,029	-
Accrued compensated absences.....	(1,216)	8,229	7,013	-
Workers' compensation.....	-	-	-	(336,000)
Total adjustments.....	2,573,052	144,581	2,717,633	(371,266)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 4,249,417	\$ 363,358	\$ 4,612,775	\$ (123,377)

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Pension Trust Fund (as of December 31, 2008)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 1,766,503	\$ 1,008,751	\$ -
Investments.....	157,799,983	2,538,799	-
Interest and dividends.....	755	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	631,229	-	530,154
Due from other funds.....	-	530,154	-
TOTAL ASSETS.....	160,198,470	4,077,704	530,154
LIABILITIES			
Warrants payable.....	901,703	91	-
Accrued liabilities.....	-	366,032	-
Due to other funds.....	-	-	530,154
TOTAL LIABILITIES.....	901,703	366,123	530,154
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ <u>159,296,767</u>	\$ <u>3,711,581</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2009

	Pension Trust Fund (as of December 31, 2008)	Private Purpose Trust Funds
<u>ADDITIONS:</u>		
Contributions:		
Employer.....	\$ 11,878,412	\$ -
Employee.....	5,482,877	-
Private donations.....	-	79,870
	17,361,289	79,870
Net investment income (loss):		
Net change in fair value of investments.....	(65,212,419)	-
Investment income (loss).....	2,394,157	(411,476)
	(62,818,262)	(411,476)
Total investment income (loss).....	(62,818,262)	(411,476)
Less: investment expense.....	(831,764)	-
	(63,650,026)	(411,476)
Net investment income (loss).....	(63,650,026)	(411,476)
Intergovernmental.....	637,566	-
Transfers from other systems.....	444,974	-
	(45,206,197)	(331,606)
TOTAL ADDITIONS.....	(45,206,197)	(331,606)
<u>DEDUCTIONS:</u>		
Administration.....	402,103	784
Transfers to other systems.....	665,301	-
Retirement benefits and refunds.....	21,018,963	-
Educational scholarships.....	-	240,222
	22,086,367	241,006
TOTAL DEDUCTIONS.....	22,086,367	241,006
CHANGE IN NET ASSETS.....	(67,292,564)	(572,612)
NET ASSETS AT BEGINNING OF YEAR.....	226,589,331	4,284,193
NET ASSETS AT END OF YEAR.....	\$ 159,296,767	\$ 3,711,581

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. The Brookline Contributory Retirement System (Retirement System) has been included as a blended component. Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town.

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

Availability of Financial Information for Component Units

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

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

Government-Wide Financial Statements

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

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

Program revenues include the following:

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

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, 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 *town hall renovations capital projects fund* is used to account for the rehabilitation project of town hall.

The *federal american recovery and reinvestment act* is used to account for federal funds received as part of the 2009 stimulus package.

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

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

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

Motor Vehicle Excise

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

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

Refuse

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

Water & Sewer

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and Sewer liens are processed annually and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 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 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:

Capital Asset Type	Estimated Useful Life (in years)
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)

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

Fund balances have been “reserved for” the following:

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

“Loans” represents community development outstanding loans receivable balances.

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

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2010 operating budget.

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable material bond premium or discount.

Governmental Fund Financial Statements

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

N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

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

O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

P. 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.

NOTE 2 - CASH AND INVESTMENTS

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

For the general fund, statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). Trust fund investments are subject to the Town's investment policies which are described further in this note. In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. At fiscal year-end, the carrying amount of deposits totaled \$21,263,030 and the bank balance totaled \$34,863,963. Of the bank balance, \$2,046,026 was covered by Federal Depository Insurance and \$32,817,937 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Town's cash and cash equivalents consist of \$21,263,030 in deposits and \$46,804,028 in cash equivalents, totaling \$68,067,058. These cash and cash equivalents are reported in both the primary government and the fiduciary funds. Those amounts total \$67,058,307 and \$1,008,751, respectively. See investments below for amounts designated as cash equivalents.

At December 31, 2008, the carrying amount of deposits for the Retirement System totaled \$233,056 and the bank balance totaled \$527,148. The entire bank balance of \$527,148 was covered by Federal Depository Insurance.

The Retirement System's cash and cash equivalents consist of \$233,056 in deposits and \$1,533,447 in cash equivalents, totaling \$1,766,503. 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, 2009:

Investment Type	Maturity		
	<u>Fair Value</u>	<u>1-5 Years</u>	<u>Over 10 Years</u>
<u>Debt Securities</u>			
United States Treasury.....	\$ 390,838	\$ 390,838	\$ -
Federal National Mortgage Asso.....	1,111,129	1,606	1,109,523
Federal Home Loan Mortgage Corp...	157,937	-	157,937
Governmental National Mortgage.....	1,629	-	1,629
	<u>1,661,533</u>	<u>392,444</u>	<u>1,269,089</u>
Total Debt Securities.....	\$ 1,661,533	\$ 392,444	\$ 1,269,089
<u>Other Investments</u>			
Equity Securities.....	6,986,076		
Equity Mutual Funds.....	3,141,596		
Repurchase Agreements (*).....	9,369,878		
Money Market Mutual Funds (*).....	194,818		
MMDT (*).....	37,239,332		
	<u>58,593,233</u>		
Total Investments.....	\$ 58,593,233		
(*) designates cash equivalent			
Total investments per above.....	\$ 58,593,233		
Less: cash equivalents.....	<u>(46,804,028)</u>		
Total Town investments.....	<u>\$ 11,789,205</u>		

The Town's investments are reported in both the primary government and the fiduciary funds. Those amounts total \$9,250,406 and \$2,538,799, respectively.

As of December 31, 2008, the Retirement System had the following investments:

Equity Security Mutual Funds.....	\$	34,041,289
International Securities.....		22,385,719
PRIT Investments.....		62,417,329
Alternative Investments-Real Estate...		38,955,646
Money Market Mutual Funds (*).....		<u>1,533,447</u>
 Total Investments.....	\$	<u><u>159,333,430</u></u>

(*) 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 \$390,838 in U.S. Treasury Securities, \$1,111,129 in Federal National Mortgage Association, \$157,937 in Federal Home Loan Mortgage Corporation, \$1,629 in Governmental National Mortgage, and \$6,986,076 in Equity Securities, the Town has custodial credit risk exposure of \$8,647,609 because the related securities are uninsured, unregistered and held by the counterparty.

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

Interest Rate Risk – Town Investments

In investments other than the general fund, the Town’s formal investment policy limits the selection of investments to the prudent investor rule, which states that the trustee should exercise reasonable care, skill, and caution. The Town contracts with an investment manager who assists the Town in managing the investment exposure to fair value losses arising from increasing interest rates.

Credit Risk – Town Investments

The Town has adopted a formal policy related to credit risk. At June 30, 2009 the Town’s debt securities were rated as follows:

<u>Quality Ratings</u>	<u>United States Treasury</u>	<u>Federal National Mortgage Asso.</u>	<u>Federal Home Loan Mortgage Corp.</u>	<u>Governmental National Mortgage Asso.</u>	<u>Totals</u>
AAA.....	\$ 390,838	\$ 1,111,129	\$ 157,937	\$ 1,629	\$ 1,661,533

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 \$22,385,719 in International Securities the Retirement System has

custodial credit risk exposure of \$22,385,719 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.

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, 2009, 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, 2008, the Retirement System does not have any investments that exceed the 5% threshold.

NOTE 3 – RECEIVABLES

At June 30, 2009, 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> </u>	<u> </u>	<u> </u>
<u>Receivables:</u>			
Real estate and personal property taxes....	\$ 1,581,667	\$ -	\$ 1,581,667
Tax liens.....	1,273,607	-	1,273,607
Motor vehicle and other excise taxes.....	494,406	(368,074)	126,332
User fees.....	138,300	-	138,300
Departmental and other.....	5,830,761	(2,142,385)	3,688,376
Intergovernmental.....	29,963,632	-	29,963,632
Loans.....	<u>194,066</u>	<u>-</u>	<u>194,066</u>
 Total.....	 <u>\$ 39,476,439</u>	 <u>\$ (2,510,459)</u>	 <u>\$ 36,965,980</u>

At June 30, 2009, receivables for the water and sewer enterprise funds totaled \$5,447,808. 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:

Type:	General Fund	Other Governmental Funds	Total
Real estate and personal property taxes....	\$ 1,278,962	\$ -	\$ 1,278,962
Tax liens.....	1,087,577	-	1,087,577
Motor vehicle and other excise taxes.....	126,332	-	126,332
User fees.....	138,300	-	138,300
Departmental and other.....	3,509,368	703,201	4,212,569
Intergovernmental.....	24,674,000	4,541,427	29,215,427
<u>Other asset type:</u>			
Due from other funds.....	325,000	-	325,000
Total.....	<u>\$ 31,139,539</u>	<u>\$ 5,244,628</u>	<u>\$ 36,384,167</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 79,727	\$ -	\$ -	\$ 79,727
Construction in progress.....	10,388,639	-	(10,388,639)	-
Total capital assets not being depreciated...	<u>10,468,366</u>	<u>-</u>	<u>(10,388,639)</u>	<u>79,727</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	20,235,866	1,299,426	-	21,535,292
Buildings.....	220,936,436	17,619,334	(93,497)	238,462,273
Machinery and equipment.....	32,118,836	2,323,438	(3,758,190)	30,684,084
Infrastructure.....	40,800,872	2,130,771	(1,660,345)	41,271,298
Total capital assets being depreciated.....	<u>314,092,010</u>	<u>23,372,969</u>	<u>(5,512,032)</u>	<u>331,952,947</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(7,954,582)	(819,773)	-	(8,774,355)
Buildings.....	(80,347,923)	(6,199,664)	93,497	(86,454,090)
Machinery and equipment.....	(21,434,874)	(2,579,156)	3,547,342	(20,466,688)
Infrastructure.....	(25,071,181)	(1,477,462)	1,660,345	(24,888,298)
Total accumulated depreciation.....	<u>(134,808,560)</u>	<u>(11,076,055)</u>	<u>5,301,184</u>	<u>(140,583,431)</u>
Total capital assets being depreciated, net.....	<u>179,283,450</u>	<u>12,296,914</u>	<u>(210,848)</u>	<u>191,369,516</u>
Total governmental activities capital assets, net.....	<u>\$ 189,751,816</u>	<u>\$ 12,296,914</u>	<u>\$ (10,599,487)</u>	<u>\$ 191,449,243</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water & Sewer Activities:				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 201,230	\$ -	\$ -	\$ 201,230
Buildings.....	2,454,159	14,870	-	2,469,029
Machinery and equipment.....	2,249,437	171,992	(472,857)	1,948,572
Infrastructure.....	47,621,234	435,748	-	48,056,982
Total capital assets being depreciated.....	<u>52,526,060</u>	<u>622,610</u>	<u>(472,857)</u>	<u>52,675,813</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(39,905)	(6,708)	-	(46,613)
Buildings.....	(880,720)	(61,677)	-	(942,397)
Machinery and equipment.....	(1,358,489)	(201,148)	450,280	(1,109,357)
Infrastructure.....	<u>(13,742,729)</u>	<u>(676,501)</u>	<u>-</u>	<u>(14,419,230)</u>
Total accumulated depreciation.....	<u>(16,021,843)</u>	<u>(946,034)</u>	<u>450,280</u>	<u>(16,517,597)</u>
Total capital assets being depreciated, net.....	<u>\$ 36,504,217</u>	<u>\$ (323,424)</u>	<u>\$ (22,577)</u>	<u>\$ 36,158,216</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 1,061,017	\$ 43,813	\$ -	\$ 1,104,830
Buildings.....	1,558,915	-	-	1,558,915
Machinery and equipment.....	242,656	-	-	242,656
Total capital assets being depreciated.....	<u>2,862,588</u>	<u>43,813</u>	<u>-</u>	<u>2,906,401</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(233,356)	(36,828)	-	(270,184)
Buildings.....	(347,276)	(39,263)	-	(386,539)
Machinery and equipment.....	<u>(51,618)</u>	<u>(26,047)</u>	<u>-</u>	<u>(77,665)</u>
Total accumulated depreciation.....	<u>(632,250)</u>	<u>(102,138)</u>	<u>-</u>	<u>(734,388)</u>
Total capital assets being depreciated, net.....	<u>\$ 2,230,338</u>	<u>\$ (58,325)</u>	<u>\$ -</u>	<u>\$ 2,172,013</u>

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

Governmental Activities:

General government.....	\$	525,101
Public safety.....		1,670,587
Education.....		4,525,180
Public works.....		3,431,509
Human services.....		700,169
Leisure services.....		<u>223,509</u>

Total depreciation expense - governmental activities..... \$ 11,076,055

Business-Type Activities:

Water and Sewer.....	\$	946,034
Golf.....		<u>102,138</u>

Total depreciation expense - business-type activities..... \$ 1,048,172

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2009, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			
	General Fund	Nonmajor Governmental Funds	Water & Sewer Enterprise Fund	Total
General Fund.....	\$ -	\$ -	47,282	\$ 47,282
Nonmajor Governmental Funds.....	3,589,097	47,554	-	3,636,651
Water & Sewer Enterprise Fund.....	1,877,687	-	-	1,877,687
Golf Enterprise Fund.....	<u>163,286</u>	<u>-</u>	<u>-</u>	<u>163,286</u>
	<u>\$ 5,630,070</u>	<u>\$ 47,554</u>	<u>\$ 47,282</u>	<u>\$ 5,724,906</u>

Transfers represent amounts voted to fund the fiscal year 2009 operating budget.

NOTE 7 – SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2009, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2008	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2009
BAN	Town Hall.....	2-2.5	04/16/09	\$ 6,900,000	\$ -	\$ 6,900,000	\$ -

NOTE 8 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 2 1/2% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

In 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, 2009, \$1,710,000 of Governmental and \$1,980,000 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.

Governmental Funds	Interest Rate (%)	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
<i>Inside Debt Limit</i>					
Schools.....	2.59-5.91	\$ 18,498,520	\$ 2,500,000	\$ 2,784,907	\$ 18,213,613
General Government.....	3.22-5.28	30,557,012	7,640,000	3,492,402	34,704,610
Athletic and recreational facilities.....	3.94-4.94	60,000	-	30,000	30,000
Sub-total.....		<u>49,115,532</u>	<u>10,140,000</u>	<u>6,307,309</u>	<u>52,948,223</u>
<i>Outside Debt Limit</i>					
Schools.....	5.33 - 5.35	<u>31,595,000</u>	-	<u>1,925,000</u>	<u>29,670,000</u>
Total Governmental bonds and Notes Payable.....		<u>80,710,532</u>	<u>10,140,000</u>	<u>8,232,309</u>	<u>82,618,223</u>
Enterprise Funds					
<i>Inside Debt Limit</i>					
Golf Course Enterprise Fund.....	3.19-3.90	1,015,000	-	140,000	875,000
Water Enterprise Fund.....	3.90-6.63	8,388,266	250,000	1,107,691	7,530,575
Sewer Enterprise Fund.....	3.90-5.28	<u>6,794,787</u>	<u>1,000,000</u>	<u>843,587</u>	<u>6,951,200</u>
Total Enterprise Bonds and Notes Payable.....		<u>16,198,053</u>	<u>1,250,000</u>	<u>2,091,278</u>	<u>15,356,775</u>
Total Bonds and Notes Payable.....		<u>\$ 96,908,585</u>	<u>\$ 11,390,000</u>	<u>\$ 10,323,587</u>	<u>\$ 97,974,998</u>

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

Fiscal Year	Principal	Interest	Total
2010.....	\$ 8,311,177	\$ 3,564,294	\$ 11,875,471
2011.....	8,034,999	3,243,330	11,278,329
2012.....	7,751,238	2,942,402	10,693,640
2013.....	7,369,633	2,643,758	10,013,391
2014.....	6,723,088	2,334,575	9,057,663
2015.....	6,277,794	2,044,823	8,322,617
2016.....	6,017,794	1,761,064	7,778,858
2017.....	5,950,000	1,479,812	7,429,812
2018.....	5,672,500	1,193,869	6,866,369
2019.....	5,535,000	927,215	6,462,215
2020.....	5,395,000	663,568	6,058,568
2021.....	1,785,000	410,776	2,195,776
2022.....	1,780,000	339,404	2,119,404
2023.....	1,270,000	264,878	1,534,878
2024.....	1,265,000	210,832	1,475,832
2025.....	1,265,000	155,747	1,420,747
2026.....	875,000	100,662	975,662
2027.....	670,000	61,600	731,600
2028.....	<u>670,000</u>	<u>30,800</u>	<u>700,800</u>
Totals.....	<u>\$ 82,618,223</u>	<u>\$ 24,373,407</u>	<u>\$ 106,991,630</u>

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>
2010..... \$	2,081,323 \$	613,847 \$	2,695,170
2011.....	2,072,501	538,269	2,610,770
2012.....	1,833,761	465,528	2,299,289
2013.....	1,770,366	397,124	2,167,490
2014.....	1,726,912	335,541	2,062,453
2015.....	1,417,206	258,388	1,675,594
2016.....	1,417,206	198,042	1,615,248
2017.....	1,165,000	136,057	1,301,057
2018.....	812,500	83,394	895,894
2019.....	520,000	48,026	568,026
2020.....	395,000	24,724	419,724
2021.....	145,000	5,800	150,800
Totals..... \$	<u>15,356,775 \$</u>	<u>3,104,740 \$</u>	<u>18,461,515</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan. The loan portion is payable in five equal annual installments. At June 30, 2009, the outstanding principal amount of this loan totaled \$165,000.

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 2009, \$3,267,000 of such assistance was received for reimbursement. Approximately \$31,625,000 will be received in future fiscal years. Of this amount, \$6,951,000 represents reimbursement of long-term interest costs, and approximately \$24,674,000 represents reimbursement of approved construction costs. Accordingly, a \$24,674,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2009, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Town Hall Garage.....	\$ 1,200,000
Golf - Buildings.....	1,280,000
Golf - Grounds.....	160,000
Waste Water System.....	5,124,065
Landfill.....	4,275,000
Muddy River Project.....	745,000
Fisher Hill.....	1,350,000
High School.....	100,000
Total.....	<u>\$ 14,234,065</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2009, the following changes occurred in long-term liabilities:

Governmental Funds

	Balance June 30, 2008	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2009	Current Portion
Long-Term Bonds and Notes.....	\$ 80,710,532	\$ 10,140,000	\$ (8,232,309)	\$ -	\$ 82,618,223	\$ 8,311,177
Other Post Employment Benefits.....	14,742,618	-	-	10,563,713	25,306,331	-
Workers' Compensation.....	1,716,000	-	-	(336,000)	1,380,000	1,197,000
Compensated Absences.....	9,100,928	-	-	57,700	9,158,628	5,554,883
Landfill Closure.....	14,880,000	-	-	(2,850,000)	12,030,000	-
Total.....	\$ 121,150,078	\$ 10,140,000	\$ (8,232,309)	\$ 7,435,413	\$ 130,493,182	\$ 15,063,060

Business-Type Activities

	Balance June 30, 2008	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2009	Current Portion
Long-Term Bonds and Notes.....	\$ 16,198,053	\$ 1,250,000	\$ (2,091,278)	\$ -	\$ 15,356,775	\$ 2,081,323
Other Post Employment Benefits.....	568,469	-	-	407,332	975,801	-
Compensated Absences.....	376,273	-	-	7,013	383,286	276,584
Total.....	\$ 17,142,795	\$ 1,250,000	\$ (2,091,278)	\$ 414,345	\$ 16,715,862	\$ 2,357,907

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, \$1,380,000 of internal service funds accrued liabilities is included above. Except for the amounts related to the internal service funds and a portion of the bonds, the governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 9 – RISK FINANCING

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

The Town is self-insured for its workers' compensation, unemployment and municipal building insurance activities. These activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. Any incurred but not reported related to unemployment and municipal building insurance is deemed immaterial and is therefore not recorded.

(a) Workers' Compensation

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The Town purchases individual stop loss insurance for claims in excess of the coverage provided by the Town in the amount of \$800,000. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2009, the amount of the liability for workers' compensation claims totaled \$1,380,000. Changes in the reported liability since July 1, 2007, 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 2008.....	\$ 1,580,000	\$ 1,364,050	\$ (1,228,050)	\$ 1,716,000
Fiscal Year 2009.....	1,716,000	868,193	(1,204,193)	1,380,000

NOTE 10 - PENSION PLAN

Plan Description - The Town contributes to the Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Brookline Contributory Retirement Board. Substantially all employees are members of the Retirement System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$12,981,000 for the fiscal year ended June 30, 2009, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

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

At December 31, 2008, the Retirement System's membership consists of the following:

Active members.....	1,925
Inactive members.....	537
Disabled members.....	188
Retirees and beneficiaries currently receiving benefits.....	<u>656</u>
Total.....	<u><u>3,306</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, 2009, 2008, and 2007 were approximately \$12,064,000, \$10,994,000, and \$9,855,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2009, the Town did not have a net pension obligation. The required contribution was determined as part of an actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.25% investment rate of return and projected salary increases of 5% per year. The actuarial value of the 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 January 1, 2009 was 14 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)
1/1/08	\$ 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 2009 totaled approximately \$265,000.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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. The Town contributes 75% of the cost of current-year premiums for healthcare and 50% for life for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 25% or 50% respectively, of their premium costs. For fiscal year 2009, the Town contributed \$9.5 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 2009:

Normal cost.....	\$	7,429,021
Amortization of unfunded actuarial accrued liability.....		<u>13,074,126</u>
Annual OPEB cost (expense).....		20,503,147
Contributions made.....		<u>(9,532,102)</u>
Increase/Decrease in net OPEB obligation.....		10,971,045
Net OPEB obligation - beginning of year.....		<u>15,311,087</u>
Net OPEB obligation - end of year.....	\$	<u><u>26,282,132</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	\$20,503,147	46.5%	\$10,971,045

Funded Status and Funding Progress - As of June 30, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$323 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$120.1 million, and the ratio of the UAAL to the covered payroll was 37.2 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, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.25 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 five years. Both rates included a 4.5 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, 2008, was thirty years.

NOTE 12 - 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.

At the Annual Town Meeting in May, the Town appropriated \$4.31 million to complete the off-site corrective action that was required, in addition to the \$3.29 million for the settlement costs associated with the project.

As currently planned for in the Town's CIP plan, \$4.43 million is required in FY15 to complete the closure of the rear landfill. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 13 – 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, 2009 the outstanding loan balance was \$325,000.

NOTE 14 - 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 has entered into a long-term contract with KTI Recycling of New England for the processing of recyclable materials delivered by the Town. The Town receives payment for paper products and pays \$25 per ton for the processing of commingled materials. There are no minimum tonnage requirements that the Town must comply with.

The School Department has entered into two agreements with Eastern Bus Company and First Student, Inc. to provide for regular transportation. The contracts bear an annual cost of approximately \$305,000 and \$295,000, respectively. The regular school transportation contracts expire on September 1, 2010.

The School Department has also entered into an agreement with Y.C.N. Transportation, Inc. and Laidlaw Transportation to provide transportation of its special needs students. These contracts bear an annual cost of approximately \$1,070,000. The special needs student transportation contracts expire on August 31, 2010.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$38,000,000 for renovations to the Runkle School, landfill corrective actions, and various other projects.

NOTE 15 - 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, 2009.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2009, the following GASB pronouncements were implemented:

- The GASB issued Statement #52, *Land and Other Real Estate Held as Investments by Endowments*, which is required to be implemented in fiscal year 2009. The standards in this statement require all investments in land and real estate in permanent and similar funds to be reported at fair value. This pronouncement did not impact the basic financial statements
- The GASB issued Statement #55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.
- The GASB issued Statement #56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This pronouncement did not impact the basic financial statements

Future Implementation of GASB Pronouncements:

- The GASB issued Statement # 53, *Accounting and Financial Reporting for Derivative Instruments*, which is required to be implemented in fiscal year 2010. The standards in this statement require all derivative instruments be reported at fair value. Management does not expect this pronouncement to impact the basic financial statements.
- The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

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Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2009

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 145,738,009	\$ 145,738,009	\$ 145,738,009
Motor vehicle and other excise taxes.....	-	5,021,739	5,021,739	5,021,739
Hotel/motel tax.....	-	685,000	685,000	685,000
Charges for services.....	-	4,409,450	4,409,450	4,434,450
Penalties and interest on taxes.....	-	340,000	340,000	340,000
Payments in lieu of taxes.....	-	719,545	719,545	719,545
Licenses and permits.....	-	3,053,475	3,053,475	3,053,475
Fines and forfeitures.....	-	4,395,000	4,395,000	4,395,000
Intergovernmental.....	-	19,500,858	19,500,858	19,500,858
Departmental and other.....	-	577,000	577,000	577,000
Investment income.....	-	1,274,455	1,274,455	1,274,455
TOTAL REVENUES.....	-	185,714,531	185,714,531	185,739,531
EXPENDITURES:				
Current:				
General government.....	3,171,687	13,904,851	17,076,538	13,355,770
Public safety.....	1,200,879	32,297,027	33,497,906	35,545,655
Education.....	1,303,201	68,261,986	69,565,187	70,065,180
Public works.....	6,641,734	18,578,415	25,220,149	26,640,153
Human services.....	57,198	2,163,934	2,221,132	2,325,809
Leisure services.....	703,558	5,204,828	5,908,386	6,056,729
Pension benefits.....	-	11,651,618	11,651,618	11,651,618
Employee benefits.....	-	26,953,456	26,953,456	26,953,456
State and county charges.....	-	5,411,614	5,411,614	5,411,614
Debt service:				
Principal.....	-	8,367,309	8,367,309	8,232,309
Interest.....	-	4,210,185	4,210,185	4,104,338
TOTAL EXPENDITURES.....	13,078,257	197,005,223	210,083,480	210,342,631
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(13,078,257)	(11,290,692)	(24,368,949)	(24,603,100)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	4,821,333	4,821,333	5,630,070
Transfers out.....	-	(38,060)	(38,060)	(47,282)
TOTAL OTHER FINANCING SOURCES (USES).....	-	4,783,273	4,783,273	5,582,788
NET CHANGE IN FUND BALANCE.....	(13,078,257)	(6,507,419)	(19,585,676)	(19,020,312)
BUDGETARY FUND BALANCE, Beginning of year.....	-	34,052,027	34,052,027	34,052,027
BUDGETARY FUND BALANCE, End of year.....	\$ (13,078,257)	\$ 27,544,608	\$ 14,466,351	\$ 15,031,715

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	146,542,184	\$ -	\$ 804,175
	5,027,901	-	6,162
	788,531	-	103,531
	5,006,364	-	571,914
	494,311	-	154,311
	1,021,504	-	301,959
	3,227,512	-	174,037
	4,518,301	-	123,301
	18,362,464	-	(1,138,394)
	599,320	-	22,320
	942,808	-	(331,647)
	<u>186,531,200</u>	<u>-</u>	<u>791,669</u>
	9,730,373	2,101,536	1,523,861
	34,348,558	692,404	504,693
	68,853,356	1,189,707	22,117
	17,219,253	9,193,428	227,472
	2,283,624	11,364	30,821
	4,649,840	1,369,452	37,437
	11,416,914	-	234,704
	24,714,243	177,716	2,061,497
	5,493,891	-	(82,277)
	8,232,309	-	-
	<u>4,020,451</u>	<u>-</u>	<u>83,887</u>
	<u>190,962,812</u>	<u>14,735,607</u>	<u>4,644,212</u>
	<u>(4,431,612)</u>	<u>(14,735,607)</u>	<u>5,435,881</u>
	5,630,070	-	-
	<u>(47,282)</u>	<u>-</u>	<u>-</u>
	<u>5,582,788</u>	<u>-</u>	<u>-</u>
	1,151,176	(14,735,607)	5,435,881
	<u>34,052,027</u>	<u>-</u>	<u>-</u>
\$	<u><u>35,203,203</u></u>	<u><u>(14,735,607)</u></u>	<u><u>5,435,881</u></u>

**Other Post-Employment Benefit Plan
Schedule of Funding Progress**

June 30, 2009

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)
6/30/2006	\$ -	\$ 342,061,421	\$ 342,061,421	0%	\$ 114,641,067	33.51
6/30/2008	-	323,225,372	323,225,372	0%	120,097,413	37.16

See notes to required supplementary information.

**Other Post-Employment Benefit Plan
Actuarial Methods and Assumptions**

Actuarial Methods:

Valuation date	June 30, 2008
Actuarial cost method	Projected Unit Credit
Amortization method	Amortization payments increasing at 4.5%, open
Remaining amortization period	30 years as of June 30, 2008
Asset valuation method	Market value

Actuarial Assumptions:

Investment rate of return	5.25%, pay-as-you-go scenario
Medical/drug cost trend rate	10.0% graded to 5.0% over 5 years

Plan Membership:

Current retirees, beneficiaries, and dependents	1,523
Current active members	<u>1,444</u>
Total	<u><u>2,967</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 2009 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$210,121,000 in appropriations and other amounts to be raised. During fiscal year 2009, Town Meeting approved appropriation increases totaling \$268,000.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2009, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ 1,151,176
<u>Basis of accounting differences:</u>	
Recognition of expenditures on modified accrual basis.....	(15,761)
Net change in recording 60-day receipts accrual.....	87,995
Tax refunds payable.....	<u>923,000</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	<u>\$ 2,146,410</u>

C. Appropriation Deficits

During fiscal year 2009, expenditures exceeded budgeted appropriations for state & county charges. This deficit will be funded through tax levy and available funds in fiscal year 2010.

NOTE B – OTHER POST-RETIREMENT 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 post-employment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. 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 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.