

***TOWN OF BROOKLINE, MASSACHUSETTS***

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

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

TOWN OF BROOKLINE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

**TABLE OF CONTENTS**

Letter of Transmittal.....1

Organizational Charts .....11

Independent Auditors' Report.....13

Management's Discussion and Analysis .....15

Basic Financial Statements .....28

    Statement of Net Assets .....29

    Statement of Activities .....30

    Governmental funds – balance sheet .....32

    Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets .....33

    Governmental funds – statement of revenues, expenditures and changes in fund balances .....34

    Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....35

    Proprietary funds – statement of net assets .....36

    Proprietary funds – statement of revenues, expenses and changes in fund net assets .....37

    Proprietary funds – statement of cash flows .....38

    Fiduciary funds – statement of fiduciary net assets.....39

    Fiduciary funds – statement of changes in fiduciary net assets .....40

    Notes to basic financial statements .....41

Required Supplementary Information.....71

    General fund - schedule of revenues, expenditures and changes in fund balance - budget and actual.....72

    OPEB – schedule of funding progress and employer contributions .....74

    OPEB – actuarial methods and assumptions .....75

    Notes to required supplementary information.....76



# TOWN of BROOKLINE

## *Massachusetts*

### BOARD OF SELECTMEN

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### *Letter of Transmittal*

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

State and Federal regulations require the Town of Brookline to publish at the end of each fiscal year a complete set of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) of the United States of America that are audited in accordance with Generally Accepted Auditing Standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Report on the Examination of the Basic Financial Statements of the Town of Brookline, Massachusetts, for the fiscal year ending June 30, 2012 for your review.

This report consists of management's representations concerning the finances of the Town of Brookline. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Brookline has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Brookline's financial statements in conformity with GAAP. As the cost of internal controls should not outweigh their benefits, the Town of Brookline's comprehensive framework of internal controls has been designed to provide reasonable assurance in accordance with best practices that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Brookline's financial statements have been audited by Powers & Sullivan LLC, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Town of Brookline for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor rendered an unqualified opinion that the Town of Brookline's financial statements for the fiscal year ended June 30, 2012 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Brookline was part of a broader, federally mandated "Single Audit" designed to meet the particular needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Brookline's separately issued Reports on Federal Award Programs, also known as the Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town of Brookline's MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

The Town of Brookline was founded in 1630 and incorporated in 1705. It is located in Norfolk County and borders Boston to the east, north and south, and Newton to the west. It is approximately 6.8 square miles in area and, according to the 2010 federal census, has a population of 58,732 persons.

### **Municipal Services**

The Town provides educational and governmental services within its boundaries including:

- public education in grades pre-kindergarten through 12 to more than 6,600 students
- police and fire protection, building inspection and animal control services
- highway and roadway maintenance, including snow and ice control and traffic control
- street and sidewalk maintenance
- water and sewer services
- refuse collection and recycling services
- parks and recreational services, including a golf course and a swimming pool
- library services
- senior citizen services and programs, including a senior center facility
- public health services, including food outlet inspections, immunizations, and mental health
- veterans services and youth and human services

### **Governing Bodies and Officers**

The Town operates under a Board of Selectmen/Representative Town Meeting form of government. The Board of Selectmen is an elected five-member chief executive body responsible for establishing overall policy leadership and direction. Local legislative decisions are made by a Representative Town Meeting consisting of 248 members and implemented by the Board of Selectmen. A Town Moderator is elected every three years to preside over the proceedings of Town Meeting. Day-to-day administrative authority is vested in the Town Administrator, who is appointed by the Board of Selectmen. The Town Administrator is the chief operating officer and is responsible for the supervision and the administration of all departments except for the School Department, Library, and Town Clerk's Office. The Superintendent of Schools is the chief operating officer for the Brookline Public Schools and is responsible for the supervision and administration of all School operations.

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

### **Audit Committee**

The Audit Committee consists of six members with appointment not restricted to the ranks of appointing bodies. The Board of Selectmen, the Advisory Committee and the School Committee each appoint one member and the Town Moderator appoints three members. Current voting members include Nancy Daly (selectmen appointee and chair), Lee Selwyn (Advisory Committee), Alan Morse (School Committee), James Littleton, Gregory Grobstein and Christopher Cox (Moderator's Appointees). In addition to the six voting members, the Director of Finance (Stephen Cirillo), the Comptroller (Judith Haupin, prior to her retirement in September, 2012), the Superintendent of Schools or his/her designee (Peter Rowe), and the Town Administrator or his/her designee (Sean Cronin) serve as nonvoting members of the Committee. The Audit Committee serves as advisor to the Board of

Selectmen with respect to the Town's financial condition, financial management systems, and controls and annual audit. In addition, the Committee shall report to Town Meeting as the Committee sees fit on matters within the scope of Town Meeting's concerns. Specific duties shall include, but are not limited to the following:

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

### **Financial and Management Practices**

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

The five-year Forecast, submitted in December of each year, is a comprehensive review of economic trends on a local, regional and national basis. It analyzes major municipal fund expenditure projections based upon service program assumptions and develops revenue estimates based on economic conditions and prior trends. The forecast presents surplus/deficit projections based on various scenarios of key revenue sources (e.g., State Aid) and expenditure categories (e.g., health insurance, collective bargaining). These scenarios guide both the Board of Selectmen and Town Administrator in the preparation of the ensuing fiscal year's budget.

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

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

## Principal Executive Officers

<u>Office</u>	<u>Name</u>	<u>Term</u>	<u>Term Exp.</u>
Town Administrator	Melvin A. Kleckner	Appointed - 3 years	2013
Superintendent of Schools	William Lupini	Appointed - 3 years	2015
Deputy Town Administrator	Sean Cronin	Appointed - 1 year	2013
Assistant Town Administrator	Melissa Goff	Appointed - 1 year	2013
Finance Director and Treasurer	Stephen Cirillo	Appointed - 1 year	2013
Town Comptroller	Judith Haupin (thru 9/2012)	Appointed - 1 year	2013
Town Clerk	Patrick J. Ward	Elected - 3 years	2015
Town Counsel	Jennifer Dopazo Gilbert	Appointed - 3 years	2014

## Tax Base/Local Economy

Brookline is bordered by the City of Boston. It has both urban and suburban features and is characterized by comparatively high property values. Approximately 76% of general fund revenues are financed by the annual tax on property. The remaining revenues come from locally derived receipts (approximately 9%), State Aid (approximately 7%), transfers from other non-general funds (approximately 5%), and Free Cash (approximately 2%).

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

Residential	\$ 11.40 per thousand
Commercial	\$ 18.58 per thousand

A combination of significant new development and a healthy real estate market has contributed to a steadily growing tax base. The tax base (current market valuation of \$15.3 billion) has increased more than 76% over the past decade, reflecting strong development and real estate appreciation. The Town's tax base is the fifth largest in Massachusetts. Building permit activity continues at a strong pace, having averaged \$2.5 million annually over the last five years. Per capita housing market value of approximately \$250,000 is also among the highest in the state, as is the per capita personal income level, which is \$44,327 according to the 2010 census.

## Long-term Financial Planning

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

Brookline has also enhanced its revenue flexibility by utilizing enterprise funds for certain operations. This allows the Town to charge 100% percent of the operating cost and capital improvements to the users of certain services so that no tax support goes toward providing these services. This includes the water, sewer and municipal golf course operations. By doing so, the Town is able to provide the maximum tax dollars available to all other services. Cost recovery efforts have also been increased in the recreation area, with the Recreation Revolving Fund picking up more of the costs of their programs. This has allowed for reductions in the Recreation Department's general fund budget.

## The Annual Financial Plan

Over the past decade, a number of cost centers have placed significant pressures on the operating budget, including health insurance, pensions, utilities, special education, and school enrollment. These cost pressures have made maintaining the level and quality of services the Town delivers difficult.

Double-digit growth in health insurance premiums were the norm for much of the period from 2004 - 2010, consuming approximately one-third of all new property tax revenue during that time. This line-item increased from \$12 million in FY 2003 to \$24 million in FY 2010. Over the past few years, the Town has taken steps to help blunt the growth in this cost center:

- in FY 2008, plan design changes were implemented that resulted in an annualized decrease of more than \$1 million in the health insurance budget.
- effective July 1, 2010 (FY 2011), the Town and its unions agreed to enter into the Group Insurance Commission (GIC), the state agency that provides life, health, disability and dental and vision services to more than 300,000 state employees, retirees and their dependents. This action enabled the Town to reduce its group health budget from what was expected to be \$25.8 million to \$20.2 million, a savings of \$5.6 million. It also reduced premium withholdings for employees.

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

Healthcare insurance is provided during the working life of employees and in their retirement. The annual cost of group healthcare insurance referred to in the preceding paragraph represents the premiums paid for a particular year for both working and retired employees and eligible dependents. The accompanying basic financial statements, prepared in accordance with GAAP, reflect additions, costs, liabilities and disclosures related to the healthcare obligation the Town has to its working and retired employees and their dependents, and will have to its working employees in their retirement years. Financial accounting and disclosure for healthcare provided to employees in retirement is established by GAAP for Other Post-Employment Benefits, and is referred to herein by terms including OPEB, post-employment, and post-retirement. The Town has developed an OPEB funding plan that results in the Town reaching its Annual Required Contribution (ARC) in approximately five years and being fully funded in approximately 22 years.

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

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

Utility expenses have skyrocketed since FY 2003: the price of electricity has increased 106%; natural gas has increased by 173%; the price of heating oil is 317% higher; and the price of vehicle fuel is 165% higher. As a result, the Town's total utility budget has doubled since FY 2003 to \$5.7 million. In an effort to reduce the consumption of energy, the Town, through its CIP, funding from the American Recovery and Reinvestment Act (ARRA), and programs with local utilities, has invested in energy efficiency programs and technologies. Savings from these investments are being realized, most notably in Town Hall, where consumption has been cut in half. The Town has also taken advantage of recent drops in the electricity and natural gas markets by competitively procuring rates at less than the current price for the next few fiscal years. And the Town continues to replace aging vehicles with hybrids when possible.

Special education (SPED) and enrollment growth continue to place stress on the School budget. SPED has been growing by approximately \$700,000 per year and now consumes approximately 25% of the School budget. Enrollment in the elementary schools has resulted in cost pressures not only in the School's operating budget, but also on the CIP, as numerous school facility projects are being planned for (see the CIP section below). Over the past six years, total K-8 enrollment has grown by more than 1,000 students (25%); in just the past three years, there has been an increase of more than 600 students (14%). Based upon available birth data and other demographic trends, this growth pattern is expected to continue for at least the next four years. This will result in total enrollment growth of approximately 1,400 students (36%) during the 10-year (FY 2005-FY 2015) period. In 2005, the K-8 elementary schools operated with 3,888 students in 196 homerooms. In FY 2013, they are teaching 5,074 students in 242 homerooms, an increase of 1,186 students (31%) and 46 homerooms (23%).

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

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

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

Local Receipts, which consist of sources such as motor vehicle excise, refuse fees, building permits, interest income, parking tickets, and meals and hotel/motel excise taxes, make up approximately 9% of the Town's annual revenue. Over the past half decade, the Town has increased certain local receipts in order to replace revenue lost from State Aid cuts, thereby increasing reliance on local revenues to cover the increasing cost of providing services. Examples include increases in the refuse fee, fines for parking violations, and parking meter fees. The Town continues to review all current and potential sources of revenue. Along with many other communities in Massachusetts, Brookline adopted two new local options designed to raise local revenues. The first was the adoption of a 0.75% meals excise tax. The second was an amendment to the Local Room Occupancy tax, increasing the local option excise tax from 4% to 6%. Both these local options became effective on October 1, 2009, and the Town began receiving distributions from the Commonwealth in December, 2009.

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



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

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

- Anticipated school projects (\$95.5 million). It is important to note that the Devotion School renovation/addition project assumes that the Massachusetts School Building Authority (MSBA) covers approximately 41% of the costs. If the MSBA chooses not to partner with the Town, then either the project needs to be reduced or a debt exclusion override will be required.
- Rehabilitation of the Town's streets and sidewalks (\$17 million). The 2008 Override included additional funding for streets and sidewalks, proof of the Town's and taxpayers' commitment to maintaining its infrastructure. State funding via the Chapter 90 program is expected to fund \$5.7 million of this work.
- Upgrades and rehabilitation of various parks/playgrounds/open spaces (\$14.2 million).
- The purchase of the former state-owned Fisher Hill reservoir for transformation into an active / passive open space (\$4.6 million, of which just \$1.35 million is supported by the tax base).
- The closure of the rear landfill (\$4.6 million).
- Fire station renovations and fire apparatus (\$4.6 million).
- The Village Square project in the Brookline Village / Route 9 area (\$4.5 million). The Town anticipates receiving a significant grant through the State Transportation Improvement Program (STIP) and funding the balance of the project by utilizing the Section 108 Loan Program afforded by the Federal government under the CDBG program and outside sources related to the Two Brookline Place redevelopment.
- Upgrade and maintenance of our waste water system (\$3.6 million), which will be borne by the water and sewer rates rather than the tax levy.

As previously detailed, enrollment in the PreK-8<sup>th</sup> grade elementary schools has increased significantly, placing pressure on both operating and capital budgets. In the current 2012-2013 school year, there are 46 (23%) more homerooms and 1,186 (31%) more students than in 2005. In order to create additional classroom space, the Town, through its CIP, has appropriated funds for the following projects, all of which increase the number of classrooms in the elementary schools:

- Runkle School Renovation / Addition (\$29.1 million, of which approximately 40% will be paid for by the State)
- Heath School Addition (\$8.5 million, of which approximately 40% will be paid for by the State)
- Classroom Capacity (\$3 million since FY 2008)

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

### **Other Post-Employment Benefits**

The Town of Brookline is legally and contractually obligated to pay for the retiree healthcare cost of past, present and future Town / School retirees who have worked a minimum of 10 years for the Town. The calendar year 2010 Biennial Actuary Analysis estimated the present value of this obligation to be \$323 million (at a discount rate of 5.5%). At June 30, 2012, the Town has a balance of \$12.8 million of assets in a fiduciary-managed trust fund that is designed to be the source of funding to satisfy the obligation. GAAP requires that the unfunded liability be recognized in the basic financial statements. Beyond the trust fund, the Statement of Net Assets at June 30, 2012 includes a liability of \$37.9 million for a portion of the unfunded post-employment benefits; none of the Town's assets as of that date are dedicated to the satisfaction of that liability. The recognized amount of the liability will continue to grow, and be reduced as assets are contributed to the trust fund. Future funding of the retiree healthcare obligation represents the Town's largest financial challenge.

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

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

In addition, the Town has begun allocating retiree healthcare costs to all enterprise, revolving, grant, and special funds of the Town and School Departments. It is anticipated that this policy could generate an additional \$28.95 million of funding for the OPEB liability. This plan could result in increased fees charged to the users. Finally, the Town will have the opportunity to determine whether it should use the budgetary capacity currently allocated to the unfunded pension liability when that obligation is fully funded in 2030. In the area of cost containment, the Town and Unions reached an agreement to enter the State’s Government Insurance Commission (GIC) to provide medical insurance coverage for current working and retired employees and their eligible dependents.

As a result of these decisions, the unfunded OPEB liability has been reduced from \$323.2 million to \$207.9 million. The next actuary analysis for the fiscal year ending June 30, 2012 will be completed by December 2012. As of fiscal 2011, the fiduciary-managed trust fund for retiree health care benefits is classified as a fiduciary fund, and is no longer included in the government-wide financial statements. It now appears a separate column in the fiduciary fund statements.

**Cash management policies and practices**

The Town of Brookline issues property tax bills four times a year and derives approximately 76% of its annual revenue from this source. These quarterly billings result in a reasonably steady cash flow throughout the year. Every effort is made to put any reserve funds to work. This has become more challenging of late due to continuing changes in the rate of return for most traditional investment vehicles. Nevertheless, the Town’s investment policy remains conservative with particular attention to the constraints of safety and liquidity while attempting to secure the highest yield available with those constraints.

On a daily basis, the Treasurer automatically transfers excess funds out of all depository accounts into a sweep account (repurchase agreement) with the same depository bank. Frequently, depending on the level of receipts, money is transferred into the Town account that offers the highest yield.

Finally, a significant portion of the Town’s non-expendable trust funds are currently managed by professional and nationally recognized investment management firms. Each of these funds has a distinct purpose and, therefore, the mix of holdings in cash, fixed income securities, and equities will vary by fund. The amount of annual income desired and the timing of disbursements generally govern the mix. The cash and investment commitments at June 30, 2012 for the funds maintained by the Town’s Treasurer are as follows:

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

Of the \$88.3 million in total cash and investments, more than \$63.7 million is committed to General Fund contracts, Bond and Revenue Funded Capital Projects, Enterprise operations, Trust and Agency Funds and Grant funded projects, leaving approximately \$24.5 million unencumbered and not reserved for within .

### **Risk Management**

The Town of Brookline manages its risk through a combination of self-insured programs and premium based coverage with commercial insurance carriers. Workers' compensation, unemployment and municipal building activities are self-insured while exposures to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters are covered through policies purchased from commercial carriers. Various control techniques, including employee accident prevention training, have been performed to minimize accident-related losses.

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. Third-party coverage is maintained for individual workers' compensation claims in excess of \$800,000. In addition, the Town administers an insurance reserve fund to help offset the annual cost of its risk management program. Additional information on the Town of Brookline's risk management activity can be found in the notes to the financial statements.

### **Initiatives**

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

- 5% reduction in Town full time equivalent employment since FY 2006 (exclusive of school positions)
- Further utilization of contracted services
- Move to the Group Insurance Commission (GIC) (see above)
- Implementation of plan design changes in the Town's health insurance program (see above)
- Re-organization of various departments/divisions
- Civilianization of certain functions in the police and fire departments
- Further utilization of technology to drive efficiencies
- Investment in energy efficiency projects

### Update of Financial Policies

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

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

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

#### Water/Sewer Rate Structure

During the rate setting process for the FY 2010 water/sewer rates, the Board of Selectmen directed the Department of Public Works (DPW) to examine the rate structure. As a result, the Town undertook an exhaustive review of its water/sewer rate structure with the assistance of Weston and Sampson Engineers. At the core of the analysis was the issue of revenue volatility. With the on-going reduction in water consumption, revenue deficits were generated in the enterprise fund, and those deficits had to be raised in the following fiscal year's rates.

In June, 2011 the Board of Selectmen adopted a revamped rate structure for FY 2012 that moved the Town from a flat rate structure, which had been utilized for decades, to an increasing block rate structure with a base service charge and a fire service fee for certain properties. The revamped rate structure accomplished a number of goals:

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

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

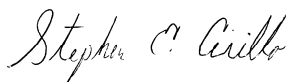
#### **Acknowledgements**

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Town Administrator's Office and the Finance Department. We would like to express our appreciation to all the members of the department who assisted and contributed to the preparation of this report. Credit should also be given to the Board of Selectmen for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Brookline's finances.

Respectfully submitted,



Melvin A. Kleckner  
Town Administrator

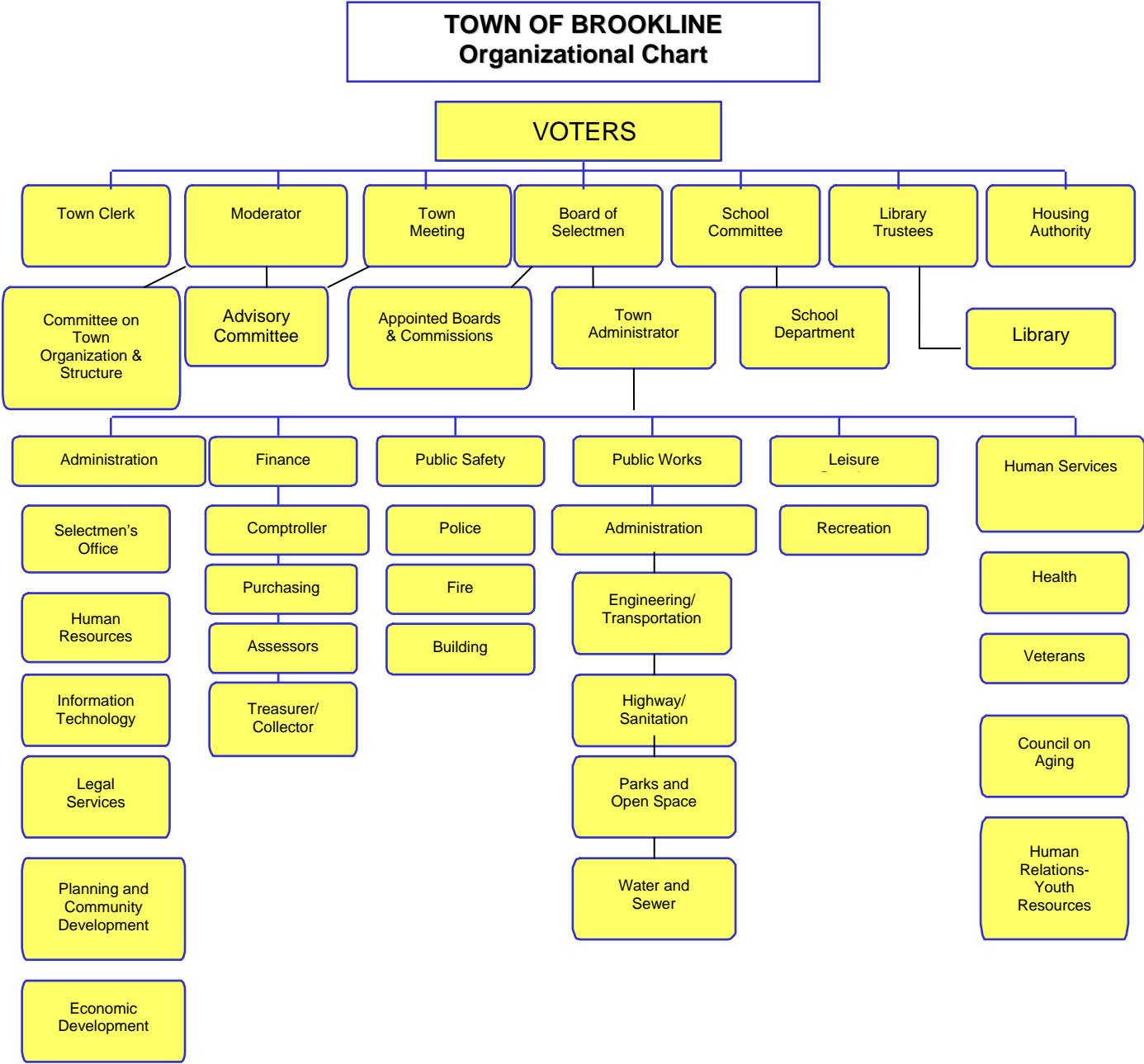


Stephen Cirillo  
Finance Director



Judith A. Haupin  
Town Comptroller

# Organizational Charts



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

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



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## Independent Auditors' Report

To the Honorable Board of Selectmen  
Town of Brookline, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2011), which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Brookline, Massachusetts' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of June 30, 2012 (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012 on our consideration of the Town of Brookline, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

The letter of transmittal and organizational charts have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Powers & Sullivan LLC". The signature is written in a cursive, flowing style.

December 12, 2012



***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the Town of Brookline, Massachusetts, we offer readers of the Town of Brookline's financial statements this narrative overview and analysis of the financial activities of the Town of Brookline for the fiscal year ended June 30, 2012. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

The Governmental Accounting Standards Board (GASB) is the authoritative standards setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Governments must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. The Town of Brookline has received an unqualified opinion on its financial statements since the fiscal year ended June 30, 1995.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Town of Brookline's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, community and economic development, leisure services, and interest. The business-type activities include water, sewer, and golf activities.

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

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

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

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

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

**Proprietary funds.** The Town maintains two types of proprietary funds.

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water, sewer, and golf activities.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among various functions. The Town uses internal service funds to account for Other Postemployment Benefits (OPEB), workers' compensation benefits, unemployment and municipal building insurance. Because these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the progress in funding its obligation to provide postemployment benefits to its employees.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown below, governmental assets exceeded liabilities by \$178.7 million at the close of fiscal year 2012.

For the governmental activities, net assets of \$155.3 million reflect the Town's investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. \$29.4 million represents resources that are subject to external restrictions on expenditures. The Town has \$31.9 million of unrestricted net assets without considering the recorded liability for a portion of the postemployment healthcare obligation. That liability (\$37.9 million) is long-term in nature, and will not be funded from the \$31.9 million of unrestricted net assets at June 30, 2012 (see the discussion of Other Postemployment Benefits in the Transmittal Letter section of this report).

### Governmental Activities Net Assets

At the end of the current fiscal year, the Town is able to report positive balances in two out of three categories of net assets. The Town's assets exceeded liabilities by \$178.7 million at the close of fiscal year 2012.

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

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

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

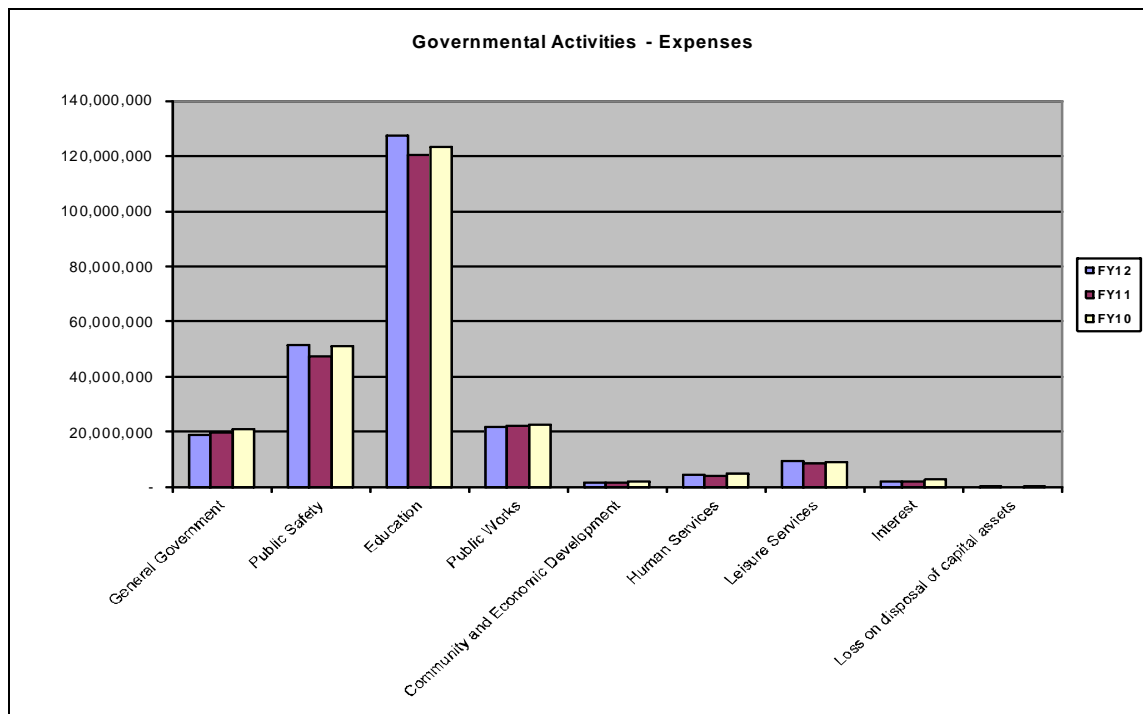
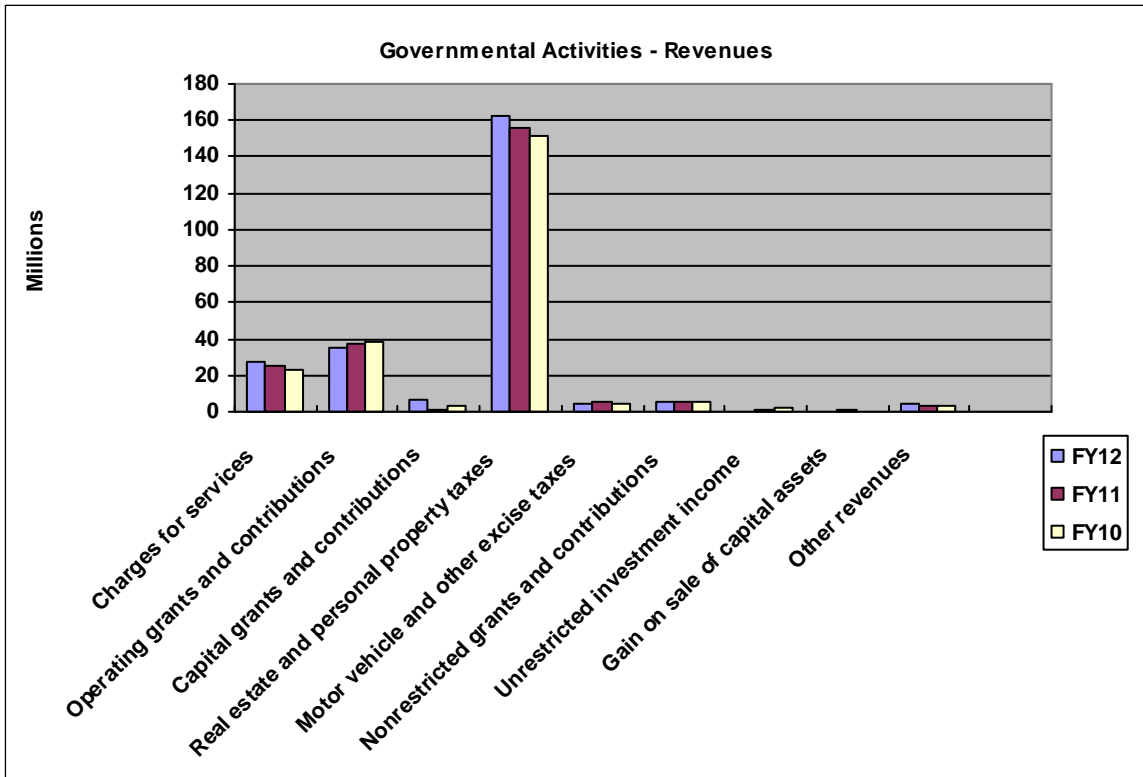
The increase in net assets is due to several factors.

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

These increases were offset by the increase in the liability relating to GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This requires the recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan. In fiscal 2012 the Town, based on its actuarial valuation, reported an accrual of \$37.9 million for its portion of the liability that was not paid. This represents an increase of \$4.4 million over the prior fiscal year.

The governmental expenses totaled \$237.3 million of which \$68.4 million (28.8%) was directly supported by program revenues consisting of charges for services, operating grants and contributions and capital grants. General revenues totaled \$176.8 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid.

The following tables show the functional sources and uses of Fiscal 2012 revenues and expenses.



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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$66.6 million, of which \$26.0 million is for the general fund, \$779 thousand is for the Runkle School Renovation fund, \$12.0 million is for the capital articles fund, (\$183) thousand is for the Chapter 90 Highway fund and \$28.0 million is for the nonmajor funds.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$24.8 million, while total fund balance was \$26.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11.8% of total general fund expenditures, while total fund balance represents 12.3% of that same amount

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

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

The Capital Article Fund is used to account for various revenue financed capital projects. At the end of the current fiscal year the fund has a fund balance of \$12.0 million.

The Chapter 90 Highway fund is used to account for financial resources for the construction, reconstruction, and improvements to roadways, streets, and sidewalks. At the end of the current fiscal year the fund has a fund balance deficit of (\$183) thousand. This represents projects that are underway but reimbursement requests have not been submitted.

### **General Fund Budgetary Highlights**

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

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

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

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



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

The golf enterprise net assets increased by \$226 thousand during the current fiscal year. The increase matched the primary objective of the fund where rates are designed to cover the cost of operations.

### **Capital Planning and Budgeting**

Capital planning and budgeting is a critical undertaking for any government and is central to the delivery of essential services and the quality of life for residents. In fact, without a sound plan for long-term investment in infrastructure and equipment, the ability of local government to accomplish its goals is greatly hampered. In 1994, as part of the override discussion that year, the Board of Selectmen implemented a Financial Improvement Program. A key area addressed in the Program was capital planning and, since then, the Town has made a significant commitment to its Capital Improvement Program (CIP) to address the backlog of capital needs created by the under-investment in infrastructure during the late-1970's and the 1980's. Over the past decade (FY 2003 – FY 2012), the Town has authorized expenditures of more than \$169.5 million, for an average of \$16.9 million per year. Although there continues to be more to do in the areas of street and sidewalk repairs, parks/open space improvements, and school and town facilities upgrades, the commitment to capital improvements is showing positive results.

Each year's CIP takes into account a projected six-year view. The FY 2012 – FY 2017 CIP continued the Town's aggressive approach toward maintaining and improving the Town's physical assets. Developed within the parameters of the Board of Selectmen's CIP Policies, the CIP incorporated a number of major projects along with a financing plan that includes outside funding sources and grant opportunities. Part of the plan to balance the FY 2010 budget was to reduce the 5.5% funding level to 5%, freeing-up \$917,000 for the Operating Budget. Those funds were used to reduce the level of cuts in the Operating Budget. The FY 2012 – FY 2017 CIP completed the plan to phase back-up to 5.5%, after reaching 5.25% in FY 2011. The return to the 5.5% level was critical, as the amount of projected debt service in the out-years requires that level of funding for projects such as the Devotion School.

In addition to the 5.5% financing, Free Cash and State/Federal grants are the other key components of the overall financing strategy of the CIP. The Town's Free Cash policy dedicates this revenue source to the CIP after funding various strategic reserves. In summary, it states that after being used to help fund various reserves and protect fund balance levels, the balance of Free Cash is dedicated to the CIP. This important funding source allows for the expansion of the pay-as-you-go component of the CIP. Without Free Cash, the Town would be unable to fund many of the projects being recommended. The Town's certified Free Cash for the fiscal year ending June 30, 2010 was \$7.1 million. After funding strategic reserves to the levels called for in the Town's Reserve policies, and after leaving approximately \$1.7 million unappropriated to address an unreserved fund balance issue, \$4.4 million of additional pay-as-you-go capacity was made available to the CIP for FY 2012. For the out-years of the CIP, \$3.75 million is estimated for Free Cash, which yields approximately \$3 million per year for the CIP.

State/Federal grants total \$38.3 million over the six-year period. Of this amount, \$26.3 million represents the potential State share of the Devotion School Renovation project. The CIP assumed 35% funding by the Massachusetts School Building Authority (MSBA) for the Devotion School project; the Town must continue to work with the MSBA to see if funding will be awarded. CDBG funds add \$2.25 million over the six-year CIP, a level of funding that reflects the Town's plans to utilize the CDBG Section 108 Loan Program. This program allows the Town to take a loan for the Village Square Project and pay it back with future CDBG funds.

The "Other" funds category totals \$4 million, the largest piece being an expected \$3.25 million from the sale of the Town-owned Fisher Hill Reservoir that will be used to fund the construction of an active and passive recreation site on the State-owned land across the street.

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

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

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

All of this is being addressed while at the same time continuing to address on-going infrastructure improvements including streets, sidewalks, parks/playgrounds, and water/sewer systems. The core of any CIP should be the maintenance / repair of and improvement to a community's infrastructure, and that is the case with this CIP. Governmental jurisdictions across the country continue to struggle with the issue of funding infrastructure needs, especially in these economic and budgetary times. Fortunately, Brookline's CIP policies (dedicated CIP funding) and taxpayer support (debt exclusions for Schools and an Override that included infrastructure needs) have allowed the community to fund these needs far more adequately than would otherwise be the case.

The following schedule reflects the CIP expenditure activity for fiscal 2012, together with outstanding encumbrances and available budget balances, for both Debt and Revenue Funded Capital Projects.

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

### **Capital Asset and Debt Administration**

**Capital Assets.** The Town of Brookline's investment in capital assets for its governmental and business type activities as of June 30, 2012 amount to \$266.3 million (net of depreciation). This investment in capital assets includes land, buildings, improvements to land and buildings, machinery and equipment, vehicles, roads, sidewalks, bridges and water and sewer lines.

The net increase in the Town of Brookline's investment in capital assets for the current year was \$29.7 million, including a \$19.5 million increase for governmental activities and a \$10.3 million increase for business-type activities.

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

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

- ❖ Approximately \$21.8 million was spent on school construction and renovations.
- ❖ Approximately \$13.8 million was spent on roads, sidewalks, wastewater, and other related infrastructure.
- ❖ Approximately \$3.1 million was spent on building renovations and improvements.
- ❖ Approximately \$1.4 million was spent on machinery and equipment.

Please see Note 4 for further capital asset information.

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

**Long-term Debt.** At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$78,545,101, of which \$65,775,310 is governmental debt and \$12,769,791 in business type debt. This entire amount is classified as outstanding long-term debt. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources. During fiscal year 2012, the Town retired long term debt of \$10,019,998 and refunded \$5,550,000.

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

Please see notes 6 and 7 for further debt information.

In fiscal 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. The Town has been approved for projects at the Runkle and Heath Schools under this program. Through the end of fiscal year 2012, the Town has recorded capital grant revenue totaling approximately \$5,534,000 and \$1,111,000 respectfully, from the MSBA which is equal to 40% and 34.5% of approved construction costs incurred to date. The Town received \$4,400,000 of reimbursements related to the Runkle School and \$1,000,000 related to the Heath School in fiscal 2012.

### Cash and Investments

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

## **Requests for Information**

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

You are also invited to visit our website at <http://www.brooklinema.gov> .

# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2012

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

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2012

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

See notes to basic financial statements.

(Continued)



**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2012

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

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2012

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

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

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

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	Runkle School Renovation	Capital Article Fund	Chapter 90 Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Real estate and personal property taxes, net of tax refunds.....	\$ 162,270,287	\$ -	\$ -	\$ -	\$ -	\$ 162,270,287
Motor vehicle and other excise taxes.....	4,996,690	-	-	-	-	4,996,690
Hotel/motel tax.....	1,364,218	-	-	-	-	1,364,218
Local meals tax.....	1,003,402	-	-	-	-	1,003,402
Charges for services.....	4,790,393	-	-	-	-	4,790,393
Penalties and interest on taxes.....	565,628	-	-	-	-	565,628
Payments in lieu of taxes.....	1,022,790	-	-	-	-	1,022,790
Licenses and permits.....	3,421,805	-	-	-	-	3,421,805
Fines and forfeitures.....	4,333,279	-	-	-	-	4,333,279
Intergovernmental.....	28,803,554	5,747,337	116,140	717,680	11,262,270	46,646,981
Departmental and other.....	1,367,423	-	-	-	13,678,146	15,045,569
Contributions.....	-	-	-	-	965,999	965,999
Investment income.....	395,767	-	-	-	96,093	491,860
<b>TOTAL REVENUES.....</b>	<b>214,335,236</b>	<b>5,747,337</b>	<b>116,140</b>	<b>717,680</b>	<b>26,002,508</b>	<b>246,918,901</b>
<b>EXPENDITURES:</b>						
Current:						
General government.....	8,052,265	-	1,028,563	-	1,276,138	10,356,966
Public safety.....	34,375,437	-	149,205	-	480,942	35,005,584
Education.....	75,263,392	16,900,575	1,486,616	-	19,281,212	112,931,795
Public works.....	13,292,836	-	2,418,112	902,580	297,436	16,910,964
Community and economic development.....	-	-	-	-	1,613,147	1,613,147
Human services.....	2,303,134	-	-	-	1,125,997	3,429,131
Leisure services.....	4,622,224	-	214,500	-	2,788,939	7,625,663
Pension benefits.....	30,190,262	-	-	-	-	30,190,262
Fringe benefits.....	27,116,815	-	-	-	-	27,116,815
State and county charges.....	5,654,190	-	-	-	-	5,654,190
Debt service:						
Principal.....	7,931,237	-	-	-	-	7,931,237
Interest.....	2,119,798	-	-	-	-	2,119,798
<b>TOTAL EXPENDITURES.....</b>	<b>210,921,590</b>	<b>16,900,575</b>	<b>5,296,996</b>	<b>902,580</b>	<b>26,863,811</b>	<b>260,885,552</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>3,413,646</b>	<b>(11,153,238)</b>	<b>(5,180,856)</b>	<b>(184,900)</b>	<b>(861,303)</b>	<b>(13,966,651)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Proceeds from bonds and notes.....	-	5,330,000	-	-	6,190,000	11,520,000
Proceeds from refunding bonds.....	4,375,500	-	-	-	-	4,375,500
Premium from issuance of bonds, net of expenditures.....	630,808	-	-	-	-	630,808
Premium from issuance of refunding bonds.....	440,363	-	-	-	-	440,363
Payments to refunded bond escrow agent.....	(4,815,863)	-	-	-	-	(4,815,863)
Sale of capital assets.....	3,668	-	-	-	-	3,668
Transfers in.....	6,196,316	-	7,401,546	-	355,264	13,953,126
Transfers out.....	(7,756,810)	-	(49,631)	-	(4,187,467)	(11,993,908)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(926,018)</b>	<b>5,330,000</b>	<b>7,351,915</b>	<b>-</b>	<b>2,357,797</b>	<b>14,113,694</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>2,487,628</b>	<b>(5,823,238)</b>	<b>2,171,059</b>	<b>(184,900)</b>	<b>1,496,494</b>	<b>147,043</b>
<b>FUND BALANCES AT BEGINNING OF YEAR (AS REVISED).....</b>	<b>23,524,048</b>	<b>6,601,846</b>	<b>9,845,423</b>	<b>1,634</b>	<b>26,489,476</b>	<b>66,462,427</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 26,011,676</b>	<b>\$ 778,608</b>	<b>\$ 12,016,482</b>	<b>\$ (183,266)</b>	<b>\$ 27,985,970</b>	<b>\$ 66,609,470</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds.....		\$ 147,043
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	29,504,658	
Depreciation expense.....	<u>(9,651,065)</u>	
Net effect of reporting capital assets.....		19,853,593
<p>In the Statement of Activities, only the gain on the disposal of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....</p>		
		(365,607)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(1,353,565)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(11,520,000)	
Proceeds from refunding bonds .....	(4,375,500)	
Premium from issuance of bonds.....	(630,808)	
Premium from issuance of refunding bonds.....	(440,363)	
Payments to refunding bond escrow agent.....	4,815,863	
Deferred charges on refunding.....	224,500	
Debt service principal payments.....	<u>7,931,237</u>	
Net effect of reporting long-term debt.....		(3,995,071)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	465,799	
Net change in accrued interest on long-term debt.....	(5,192)	
Net change in postemployment benefit accrual.....	(4,441,551)	
Net change in landfill accrual.....	<u>(200,000)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(4,180,944)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>(231,882)</u>
Change in net assets of governmental activities.....		\$ <u>9,873,567</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2012

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

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

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

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

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

See notes to basic financial statements.



**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

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

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

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

See notes to basic financial statements.

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

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

**A. Reporting Entity**

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

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

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

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

**Availability of Financial Information for Component Units**

The Retirement System did not issue a separate audited financial statement. The Retirement System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the Retirement System located at 11 Pierce Street, Brookline, MA 02445.

**Joint Ventures** – The Town is a member of the Massachusetts Water Resources Authority (MWRA), a joint venture with other Massachusetts governmental entities that was organized to provide water and sewer services to the respective members' Cities, Towns, and Districts. Complete financial statements for the MWRA can be obtained directly from their administrative office located at 100 First Avenue, Building 39, Boston, Massachusetts 02129.

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

## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

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

### *Fund Financial Statements*

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

### *Major Fund Criteria*

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

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

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

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

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

### *Government-Wide Financial Statements*

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

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

Program revenues include the following:

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

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

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

#### *Fund Financial Statements*

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

Real estate and personal property tax revenues are considered available if they are collected within 60 days of fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

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

The following major governmental funds are reported:

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

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

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

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

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

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

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

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

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

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

The following major proprietary funds are reported:

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

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

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

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

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

#### *Government-Wide and Fund Financial Statements*

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

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

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

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

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

#### ***Real Estate Taxes, Personal Property Taxes and Tax Liens***

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

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

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

#### ***Motor Vehicle Excise***

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

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

**Refuse**

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

**Water & Sewer**

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

Since the receivables are secured via the lien process, these accounts are considered fully collectible and therefore do not report an allowance for uncollectibles.

**Departmental and Other**

Departmental and other receivables consist primarily of police and fire details and parking tickets and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

**Intergovernmental**

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Loans**

The Department of Community and Economic Development administers loan programs that provide housing assistance to residents and capital needs assistance for small businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

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

**F. Inventories*****Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

**G. Restricted Assets**

Certain assets of the enterprise fund are classified as restricted if their use is restricted by contract covenants.



**H. Capital Assets**

*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costing more than \$15,000 and having a useful life of greater than one year are capitalized.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	5-50
Buildings.....	5-50
Machinery and equipment.....	3-20
Infrastructure.....	10-75

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

**I. Interfund Receivables and Payables**

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

*Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

The general fund has provided a long-term interest free loan to the golf enterprise fund and these balances are included in the statement of net assets as "internal balances".

*Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet.

The general fund has provided a long-term interest free loan to the golf enterprise fund and these balances are included in the fund statements as “Due from other funds” or “Due to other funds”.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

*Government-Wide Financial Statements*

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as “Transfers, net”.

*Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. In addition, property taken by the Town through the foreclosure process is recorded as an asset and deferred revenue. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

L. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Loans” represents community development outstanding loans receivable balances.

“Permanent funds - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other Purposes” represents amounts restricted by outside sources for specific purposes.

*Fund Financial Statements (Fund Balances)*

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

The governmental fund balance classifications are as follows:

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

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

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

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

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

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

M. Long-term debt*Government-Wide and Proprietary Fund Financial Statements*

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

*Governmental Fund Financial Statements*

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

#### N. Investment Income

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

The golf, water and sewer enterprise funds and the internal service funds retain their investment income.

#### O. Compensated Absences

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

##### *Government-Wide and Proprietary Fund Financial Statements*

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

##### *Governmental Fund Financial Statements*

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

#### P. Use of Estimates

##### *Government-Wide and Fund Financial Statements*

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

#### Q. Individual Fund Deficits

At fiscal year-end several individual fund deficits exist in the Special Revenue Fund that will be funded through grants and available fund balances in the next fiscal year.

#### R. Total Column

##### *Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

##### *Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

### S. Prior Period Reclassification and Revision

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

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

### **NOTE 2 - CASH AND INVESTMENTS**

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

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

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

#### Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. At fiscal year-end, the carrying amount of deposits totaled \$56,908,834 and the bank balance totaled \$61,463,574. Of the bank balance, \$1,599,761 was covered by Federal Depository Insurance, \$821,310 was covered by the FDIC Transaction Account Guarantee Program, and \$59,042,503 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

The Retirement System's cash and cash equivalents consist of \$214,204 in deposits and \$994,907 in cash equivalents, totaling \$1,209,111. See investments below for amounts designated as cash equivalents.

Investments

The Town of Brookline had the following investments, including cash equivalents classified as investments, at June 30, 2012:

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

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

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

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

(\*) designates cash equivalent

Custodial Credit Risk – Town Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Town's investments, \$660,377 in U.S. Treasury Securities, \$1,045,496 in Federal National Mortgage Association, \$111,184 in Federal Home Loan Mortgage Corporation, \$23,201 in Corporate Bonds and \$7,713,245 in Equity Securities, the Town has custodial credit risk exposure of \$9,553,503 because the related securities are uninsured, unregistered and held by the counterparty.

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

Interest Rate Risk – Town Investments

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

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

Credit Risk – Town Investments

The Town has adopted a formal policy related to credit risk. At June 30, 2012 the Town's debt securities were rated as follows:

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

Custodial Credit Risk – Retirement System Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Retirement System will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Retirement System's investments the \$28,229,346 in International Securities the Retirement System has custodial credit risk exposure of \$28,229,346 because the related securities are uninsured, unregistered and held by the counterparty.

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

Interest Rate Risk – Retirement System

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

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 9.69 years.

Concentration of Credit Risk

The Town limits the amount that may be invested in any one issuer to 5% of the total investments. At June 30, 2012, the Town does not have any investments that exceed the 5% threshold.

The Retirement System limits the amount that may be invested in any one issuer to 5% of the total investments. At December 31, 2011, the Retirement System does not have any investments that exceed the 5% threshold.



**NOTE 3 – RECEIVABLES**

At June 30, 2012, receivables for the individual major governmental funds and non-major internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes....	\$ 1,742,551	\$ -	\$ 1,742,551
Tax liens.....	1,575,065	-	1,575,065
Motor vehicle and other excise taxes.....	453,542	(356,015)	97,527
User fees.....	130,565	-	130,565
Departmental and other.....	4,470,256	(1,199,444)	3,270,812
Intergovernmental.....	10,639,836	-	10,639,836
Loans.....	111,022	-	111,022
Total.....	<u>\$ 19,122,837</u>	<u>\$ (1,555,459)</u>	<u>\$ 17,567,378</u>

At June 30, 2012, receivables for the water and sewer enterprise fund totaled \$5,332,668. The amount is considered fully collectible.

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

	General Fund	Other Governmental Funds	Total
<u>Type:</u>			
Real estate and personal property taxes....	\$ 1,037,635	\$ -	\$ 1,037,635
Tax liens.....	1,409,521	-	1,409,521
Motor vehicle and other excise taxes.....	97,527	-	97,527
User fees.....	130,565	-	130,565
Departmental and other.....	3,196,704	633,396	3,830,100
Intergovernmental.....	4,210,000	4,711,884	8,921,884
<u>Other asset type:</u>			
Due from other funds.....	250,000	-	250,000
Total.....	<u>\$ 10,331,952</u>	<u>\$ 5,345,280</u>	<u>\$ 15,677,232</u>

**NOTE 4 – CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 874,873	\$ -	\$ -	\$ 874,873
Construction in progress.....	5,387,090	21,791,104	-	27,178,194
Total capital assets not being depreciated....	<u>6,261,963</u>	<u>21,791,104</u>	<u>-</u>	<u>28,053,067</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	21,575,099	664,668	-	22,239,767
Buildings.....	241,615,565	3,063,317	(256,106)	244,422,776
Machinery and equipment.....	24,570,638	1,312,267	(1,441,556)	24,441,349
Infrastructure.....	41,433,819	2,673,302	(1,426,006)	42,681,115
Total capital assets being depreciated.....	<u>329,195,121</u>	<u>7,713,554</u>	<u>(3,123,668)</u>	<u>333,785,007</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(9,385,543)	(817,696)	-	(10,203,239)
Buildings.....	(96,138,562)	(5,525,799)	43,269	(101,621,092)
Machinery and equipment.....	(13,008,171)	(1,891,026)	1,288,786	(13,610,411)
Infrastructure.....	(23,663,036)	(1,416,544)	1,426,006	(23,653,574)
Total accumulated depreciation.....	<u>(142,195,312)</u>	<u>(9,651,065)</u>	<u>2,758,061</u>	<u>(149,088,316)</u>
Total capital assets being depreciated, net.....	<u>186,999,809</u>	<u>(1,937,511)</u>	<u>(365,607)</u>	<u>184,696,691</u>
Total governmental activities capital assets, net.....	<u>\$ 193,261,772</u>	<u>\$ 19,853,593</u>	<u>\$ (365,607)</u>	<u>\$ 212,749,758</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water &amp; Sewer Activities:</b>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 201,230	\$ -	\$ -	\$ 201,230
Buildings.....	2,570,876	-	-	2,570,876
Machinery and equipment.....	1,696,624	60,662	(82,361)	1,674,925
Infrastructure.....	54,977,274	11,172,954	-	66,150,228
Total capital assets being depreciated.....	59,446,004	11,233,616	(82,361)	70,597,259
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(59,895)	(6,574)	-	(66,469)
Buildings.....	(1,063,020)	(56,077)	-	(1,119,097)
Machinery and equipment.....	(1,028,094)	(137,395)	79,460	(1,086,029)
Infrastructure.....	(16,003,410)	(939,739)	-	(16,943,149)
Total accumulated depreciation.....	(18,154,419)	(1,139,785)	79,460	(19,214,744)
Total capital assets being depreciated, net.....	\$ 41,291,585	\$ 10,093,831	\$ (2,901)	\$ 51,382,515

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Golf Course Activities:</b>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 1,150,285	\$ 192,739	\$ -	\$ 1,343,024
Buildings.....	1,637,365	-	-	1,637,365
Machinery and equipment.....	70,279	73,651	-	143,930
Total capital assets being depreciated.....	2,857,929	266,390	-	3,124,319
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(345,586)	(45,666)	-	(391,252)
Buildings.....	(468,523)	(38,799)	-	(507,322)
Machinery and equipment.....	(44,488)	(15,742)	-	(60,230)
Total accumulated depreciation.....	(858,597)	(100,207)	-	(958,804)
Total capital assets being depreciated, net.....	\$ 1,999,332	\$ 166,183	\$ -	\$ 2,165,515

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

**Governmental Activities:**

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

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

**Business-Type Activities:**

Water and Sewer.....	\$	1,139,785
Golf.....		<u>100,207</u>

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

**NOTE 5 - INTERFUND TRANSFERS**

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

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

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

**NOTE 6 - SHORT-TERM FINANCING**

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

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

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

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

**NOTE 7 - LONG-TERM DEBT**

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

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

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

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

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

In previous fiscal years, certain general obligation bonds were defeased by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements.

At June 30, 2012, \$25,445,000 of Governmental and \$3,320,000 of Enterprise Fund bonds outstanding from the advance refunding are considered defeased.

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

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

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

Fiscal Year	Principal	Interest	Total
2013.....	\$ 7,404,634	\$ 2,353,085	\$ 9,757,719
2014.....	6,607,088	2,026,141	8,633,229
2015.....	6,027,294	1,830,197	7,857,491
2016.....	5,603,794	1,639,755	7,243,549
2017.....	5,375,000	1,456,349	6,831,349
2018.....	4,932,500	1,275,724	6,208,224
2019.....	4,605,000	1,101,886	5,706,886
2020.....	4,275,000	949,136	5,224,136
2021.....	2,820,000	783,683	3,603,683
2022.....	2,810,000	674,525	3,484,525
2023.....	2,245,000	563,121	2,808,121
2024.....	2,240,000	481,864	2,721,864
2025.....	2,240,000	399,403	2,639,403
2026.....	1,850,000	315,162	2,165,162
2027.....	1,645,000	246,287	1,891,287
2028.....	1,645,000	185,113	1,830,113
2029.....	975,000	119,437	1,094,437
2030.....	975,000	87,188	1,062,188
2031.....	975,000	51,748	1,026,748
2031.....	<u>525,000</u>	<u>15,750</u>	<u>540,750</u>
Totals.....	\$ <u>65,775,310</u>	\$ <u>16,555,552</u>	\$ <u>82,330,862</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>
2013..... \$	2,172,386 \$	442,799 \$	2,615,185
2014.....	2,124,932	368,048	2,492,980
2015.....	1,799,726	293,725	2,093,451
2016.....	1,788,226	234,065	2,022,291
2017.....	1,522,020	174,699	1,696,719
2018.....	1,132,501	122,200	1,254,701
2019.....	830,000	82,118	912,118
2020.....	700,000	53,157	753,157
2021.....	370,000	26,356	396,356
2022.....	125,000	12,456	137,456
2023.....	25,000	7,556	32,556
2024.....	25,000	6,733	31,733
2025.....	25,000	5,882	30,882
2026.....	25,000	4,976	29,976
2027.....	20,000	4,062	24,062
2028.....	20,000	3,332	23,332
2029.....	20,000	2,543	22,543
2030.....	20,000	1,780	21,780
2031.....	20,000	974	20,974
2031.....	5,000	150	5,150
Totals..... \$	<u>12,769,791</u> \$	<u>1,847,611</u> \$	<u>14,617,402</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2012, \$1,228,000 of such assistance was received for reimbursement. Approximately \$5,200,000 will be received in future fiscal years. Of this amount, \$1,000,000 represents reimbursement of long-term interest costs, and \$4,200,000 represents reimbursement of approved construction costs. Accordingly, a \$4,200,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In fiscal 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. The Town has been approved for projects at the Runkle and Heath Schools under this program. Through the end of fiscal year 2012, the Town has recorded capital grant revenue totaling approximately \$5,500,000 and \$1,200,000 respectfully, from the MSBA which is equal to 40% and 34.5% of approved construction costs incurred to date. The Town received \$4,400,000 of reimbursements related to the Runkle School and \$1,000,000 related to the Heath School in fiscal 2012.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2012, the Town had the following authorized and unissued debt:

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

**Changes in Long-term Liabilities**

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

**Governmental Funds**

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

**Business-Type Activities**

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



Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above. At fiscal year end, \$995,000 of internal service funds accrued liabilities is included above. Except for the amounts related to the internal service funds and a portion of the bonds, the governmental activities long-term liabilities are generally liquidated by the general fund.

#### **NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

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

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

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

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

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

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

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

**NOTE 9 – STABILIZATION FUND**

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

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

**NOTE 10 – RISK FINANCING**

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

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

(a) *Workers’ Compensation*

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

At June 30, 2012, the amount of the liability for workers’ compensation claims totaled \$995,000. Changes in the reported liability since July 1, 2010, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2012.....\$	983,000	\$ 1,605,259	\$ (1,593,259)	995,000
Fiscal Year 2011.....	900,000	1,228,504	(1,145,504)	983,000

**NOTE 11 - PENSION PLAN**

*Plan Description* - The Town contributes to the Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Brookline Contributory Retirement Board. Substantially all employees are members of the Retirement System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$15,634,037 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The Retirement System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Brookline Contributory Retirement Board and are borne by the Retirement System. The Retirement System issues a publicly available financial report prepared in accordance with guidelines established by the Commonwealth’s PERAC. That report may be obtained by contacting the Retirement System located at 11 Pierce Street, Brookline, MA 02445.

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

Active members.....	1,338
Inactive members.....	1,306
Disabled members.....	185
Retirees and beneficiaries currently receiving benefits.....	<u>680</u>
Total.....	<u><u>3,509</u></u>

*Funding Policy* - Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the Retirement System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings.

The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute approximately 97%, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

*Annual Pension Cost* - The Town contributions to the Retirement System for the fiscal years ended June 30, 2012, 2011, and 2010 were approximately \$14,442,000, \$13,822,000 and \$12,064,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2012, the Town did not have a net pension obligation. The required contribution was determined as part of an actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.15% investment rate of return and projected salary increases of 5% per year. The actuarial value of the Retirement System's assets was determined using the fair value of the assets. The Retirement System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2012 was 16 years.

**Schedule of Funding Progress (Dollar amounts in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/10	\$ 220,576,982	\$ 357,980,915	\$ 137,403,933	61.6%	\$ 58,622,493	234.4%
1/1/08	223,598,975	332,222,063	108,623,088	67.3%	59,789,007	181.7%
1/1/06	190,818,205	299,355,769	108,537,564	63.7%	58,277,406	186.2%
1/1/04	177,153,465	265,441,629	88,288,164	66.7%	52,378,086	168.6%
1/1/02	171,285,347	250,478,343	79,192,996	68.4%	45,109,610	175.6%
1/1/00	160,983,529	217,964,030	56,980,501	73.9%	43,028,894	132.4%

Funding progress is reported based on the biennial actuarial valuation performed by the Retirement System, and is being accumulated on a biennial basis. The Town is responsible for approximately 97% of the unfunded liability.

*Noncontributory Retirement Allowance* – The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the Retirement System. The general fund expenditure for fiscal year 2012 totaled approximately \$113,891.

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

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

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

*Funding Policy* - Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. For 2012, the Town contributes 78% of the cost of current-year premiums for healthcare for eligible retired plan members and their spouses and 75% of current-year premiums for life insurance for eligible plan members. For fiscal year 2012, the Town contributed \$11.7 million to the plan.

*Annual OPEB Cost and Net OPEB Obligation* - The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for fiscal year 2012:

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

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

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

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

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

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

In the June 30, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.25 percent investment rate of return, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after six years. Both rates included a 4.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 28 years.

#### NOTE 13 - LANDFILL CLOSURE COSTS

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town operated a solid waste landfill that ceased operations in 1972. The Town has reflected \$4,870,000 as the estimate of the rear landfill closure liability at June 30, 2012, in the government-wide financial statements governmental activities. This amount is based on estimates of what it would cost to perform all future closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 14 - INTERFUND LOAN**

On June 12, 2001, the General Fund issued an interest free note in the amount of \$500,000 to Putterham Meadows Golf Club Enterprise Fund to meet projected and capital expenses. The note is payable at \$25,000 per year, due on July 1 of each year. At June 30, 2012 the outstanding loan balance was \$250,000.

**NOTE 15 - COMMITMENTS**

The Town has entered into a long-term contract with Whitney Trucking Inc. to load, haul and dispose of municipal solid waste. The Town is charged a flat rate per ton that is subject to increase annually. There are no minimum tonnage requirements that the Town must comply with.

The Town entered into an agreement with Waste Management of Massachusetts, Inc. to provide single stream recycling for the Town. The fiscal year 2012 cost to the Town was approximately \$844,000 and the expected cost for fiscal year 2013 is \$887,000. This contract expires on June 30, 2014.

The School Department has entered into an agreement with Eastern Bus Company, Inc. to provide for regular transportation. The fiscal year 2012 cost to the Town was approximately \$684,000 and the expected cost for fiscal year 2013 is \$537,000. The contract expires on August 31, 2013.

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

The Town has entered into, or is planning to enter into, contracts totaling approximately \$15,356,306 for renovations to the Runkle School, the Heath School, landfill capping, various sewer improvements, renovations to the Carlton Street Foot Bridge and various other projects.

**NOTE 16 - CONTINGENCIES**

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2006, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

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

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

- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53. The implementation of this pronouncement did not impact the basic financial statements.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.

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

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.



***Required Supplementary Information***

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

FISCAL YEAR ENDED JUNE 30, 2012

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

See notes to required supplementary information.

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

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

JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2010	\$ 7,355,050	\$ 215,241,642	\$ 207,886,592	3%	\$ 124,608,849	166.83
6/30/2008	-	323,225,372	323,225,372	0%	120,097,413	269.14
6/30/2006	-	325,834,939	325,834,939	0%	114,641,067	284.22

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2012	\$ 15,558,958	\$ 11,655,515	75%
2011	14,945,299	11,043,394	74%
2010	21,473,717	10,522,409	49%

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

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Actuarial Methods:

Valuation date.....	June 30, 2010
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.0%, open
Remaining amortization period.....	28 years as of June 30, 2012
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	7.25%, pay-as-you-go scenario
Inflation.....	4.00%
Medical/drug cost trend rate.....	10.0% graded to 5.0% over 6 years and by 0.50% for 1 year to an ultimate level of 5.0% per year

Plan Membership:

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

See notes to required supplementary information.

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

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$207,700,000 in appropriations and other amounts to be raised. During fiscal year 2012, Town Meeting approved appropriation increases totaling \$481,000.

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

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

**B. Budgetary - GAAP Reconciliation**

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2012, is presented below:

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

**NOTE B – OTHER POSTRETIREMENT BENEFITS**

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

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

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

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

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