

**TOWN OF BROOKLINE, MASSACHUSETTS**

**REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

TOWN OF BROOKLINE, MASSACHUSETTS

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# TOWN of BROOKLINE

## *Massachusetts*

### BOARD OF SELECTMEN

NEIL WISHINSKY, Chairman  
NANCY A. DALY  
NANCY HELLER  
BERNARD GREENE  
BENJAMIN FRANCO

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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) 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, 2016, 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 licensed certified public accounting firm. 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, 2016, 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 unmodified opinion that the Town of Brookline's financial statements for the fiscal year ended June 30, 2016, 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 settled in 1630 and incorporated as a town in 1705. It is located in Norfolk County and borders Boston to the east, north and south, and Newton to the west. It is approximately 6.6 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 7,500 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/disposal and recycling services
- parks and recreational services, including a golf course and a swimming pool
- library services (one main and two branch libraries)
- 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. 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.

A nine person elected School Committee is responsible for establishing policy for all local school affairs. The Superintendent of Schools is the chief operating officer for the Brookline Public Schools and is responsible for the supervision and administration of public education. 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. The Retirement Board is one of 105 retirement boards in the Commonwealth which oversees a uniform benefit system and rules, promulgated by the state for municipal employees. 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.

There are a number of other citizen boards and commissions that play a key role in Town affairs, and contribute to the active and engaged citizenry, including the Planning Board, Park and Recreation Commission, Building Commission, Transportation Board, Preservation Commission, and Conservation Commission. The Advisory Committee, which is appointed by the Town Moderator, reviews and makes recommendations on all matters to be considered by Town Meeting. In that capacity, it serves as the Town's finance committee.

### **Audit Committee**

The Audit Committee consists of six members. 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), Beth Jackson Stram (School Committee), James Littleton, CPA, Gregory Grobstein, CPA and Peter Finnerty, CPA (Moderator's Appointees). In addition to the six voting members, the Director of Finance (vacant), the Comptroller (Michael DiPietro), the Superintendent of Schools or his/her designee (Mary Ellen Dunn), and the Town Administrator or his/her designee (Melissa Goff) serve as nonvoting members of the Committee. The Audit Committee serves in an advisory role to the Board of Selectmen with respect to the Town's financial condition, financial management systems, and controls and the annual audit. In addition, the Committee reports 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 Operating Budget and the first year of the CIP 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 and can be found in the Appendix of the Financial Plan or online in the “Budget Central” section of the Town's website (BrooklineMA.gov). These policies were established in the mid-1990's and have been reviewed and modified accordingly over the years, most recently by Fiscal Policy Review Committees in both 2004 and 2011.

The five-year Financial Forecast, submitted in December of each year, is a review of economic trends on a local 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 projects department budgets 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 of each year and presented along with the Financial Forecast in December, 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 total funding level of 7.5% of the prior year net revenue, the annual plan allows decision makers and voters the opportunity to regularly analyze and decide upon project funding. After inclusion in the Town Administrator's financial plan, the proposed CIP is reviewed by the Board of Selectmen, 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 sources and uses recommendations for all major funds; departmental missions, goals, objectives and annual work plans; and 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 operation and the golf course; and the Recreation Revolving Fund. The enterprise 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	2019
Superintendent of Schools	Andrew Bott	Appointed - 3 year	2019
Deputy Town Administrator	Melissa Goff	Appointed - 1 year	2017
Assistant Town Administrator	Austin Faison	Appointed - 1 year	2017
Finance Director and Treasurer	Vacant	Appointed - 1 year	na
Town Comptroller	Michael F. DiPietro	Appointed - 1 year	2017
Town Clerk	Patrick J. Ward	Elected - 3 years	2018
Town Counsel	Joslin Ham-Murphy	Appointed - 3 years	2017

**Tax Base/Local Economy**

Brookline is bordered by the City of Boston. It has both urban and suburban features and is characterized by comparatively high property values. Approximately 78% of general fund revenues are financed by the annual tax on property. The remaining revenues come from locally derived receipts (approximately 9%), State Aid (approximately 8%), transfers from other non-general funds (approximately 3%), and Free Cash (approximately 2%).

Residential properties comprise 89.8% of the full and fair value of the property in Brookline and they are responsible for 82.8% 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	\$ 10.42 per thousand of property value
Commercial	\$ 16.99 per thousand of property value

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 \$19.6 billion) has increased more than 42% over the past decade, reflecting strong development and real estate appreciation. The Town's tax base is the fifth largest in Massachusetts. Building permit fee activity continues at a strong pace, having averaged \$2.6 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 \$65,085 according to the 2011 MA DOR Income per capita.

## **Long-term Financial Planning**

The Town continues to manage its financial affairs in a prudent manner. Throughout all of the changes in the economy resulting in 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 operating efficiencies; 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 operating costs 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**

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 \$2.0 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, State 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 State Chapter 70 (education aid) funding, which helped the schools cover the above-mentioned cost pressures resulting from enrollment growth and Special Education. This was the most significant increase in State Aid since FY 2001, when it increased \$1.3 million. Another large increase (\$1.4 million) in Ch. 70 aid was realized in FY 2015. In addition, the State increased statewide "Circuit Breaker" funding in both FY 2013 and FY 2014, an account that reimburses school districts for certain special education costs. 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 10% of the Town's annual revenue. Over the past 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 the additional revenue 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 2015, the \$7.6 million of certified Free Cash was used for capital projects (\$4.2 million), fund balance protection (\$2.6 million left unappropriated), reserves (\$629,000), and affordable housing (\$163,000).

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. 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 from 25% to 17%. Adding to the success story, since moving to the GIC, annual premium increases have been well below the levels realized prior to the move: 4.4% in FY 2012, 2.2% in FY 2013, 3.5% increase in FY 2014, a 1.5% increase in FY 2015 and 6.9% in FY16.

Health 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 in the future for its working employees in their retirement years. Financial accounting and disclosure for healthcare provided to employees in retirement is established by GAAP for Other Postemployment Benefits, (OPEB), the Town has developed an OPEB funding plan that results in the Town reaching its Annual Required Contribution (ARC) in approximately 10 years, at which time a 30-year funding schedule can be adopted. (See the "Other Postemployment Benefits" section further below for more detailed information.)

Increases in the Town's contribution to the Retirement System have averaged more than \$1 million per year 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 required a large increase in the Town's pension contribution for FY 2015. In response, the Town approved additional funding in FY 2013 to offset the increase in the following year. Lastly, the FY 2015 pension appropriation was increased by \$200,000 above the amount required per the funding schedule and \$500,000 from Free Cash was appropriated into the pension fund, both measures taken with an eye toward paying down the unfunded liability more rapidly.

The most recent actuarial valuation, for the year ending December 31, 2015, included the following changes to the financial assumptions:

- the anticipated rate of return on investments was reduced from 7.60% to 7.40%
- the annual appropriation increase was increased from increasing 5.60% to 7.85%
- the estimate date of full funding of the unfunded liability was un-changed remaining at FY 2030

During the first decade of the 21<sup>st</sup> century, utility expenses skyrocketed: the prices of electricity and vehicle fuel more than tripled, natural gas more than doubled, and heating oil increased more than fivefold. As a result, the Town's utility expenditures doubled from \$2.6 million in FY 2000 to \$5.2 million in FY 2009. Over the past few years, the price of electricity and natural gas have moderated somewhat and Town took advantage of that by competitively procuring new contracts at more favorable rates. In an effort to reduce the consumption of energy, the Town has invested in energy efficiency programs and technologies, through its CIP, funding from the American Recovery and Reinvestment Act (ARRA) and programs with local utilities. Savings from these investments are being realized, most notably in Town Hall, where consumption has been cut in half. Lastly, the Town continues to replace aging vehicles with hybrids or other fuel-efficient vehicles and will complete the conversion of its streetlights with energy efficient LED's in FY 2016.

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).

Our K-12 student population has grown by 28.6% since FY 2006 from 5,766 students to 7,412. The district's K-8 enrollment increased by 40.3% during the last 10 years, growing by 1,570 students. While the increase in size of Brookline's kindergarten enrollment has driven the growth, these larger elementary grades will soon begin to enter the high school. Brookline High School has grown 4.1% in the last ten years, with a five-year growth of 12.7%. In the past five years, student enrollment at the high school has increased from 1,726 students to 1,946. Currently, grades Kindergarten through 4th average 651 students this year, while grades 8-12 are still averaging only 490 students. We project that there will be more than 2,400 students attending Brookline High School in grades 9-12 by the school year 2020-2021.

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. A total of 55 Classrooms were added through the use of an "Expand-in-Place" strategy since 2008 including but not limited to:

- 6 classrooms built at Heath;
- 4 classrooms built at Lawrence;
- 2 modular classrooms added at Baker;
- 11 BEEP classes moved out of K-8 buildings into leased commercial space;
- 4 classrooms in leased commercial space for Pierce;
- renovation and expansion of Devotion to add 12 classrooms; and
- Expanded use of the buffer zones to maintain class size at desired levels.

In response to these pressures, the Board of Selectmen appointed an Override Study Committee (OSC) in August, 2013 to further study these matters and determine whether the Town should seek a tax referendum to fund these extraordinary expenses. The Override Study Committee (OSC) have completed their work and presented their findings to the Selectmen in September, 2015. The OSC recommended both a Tax Override for operating purposes and a Debt Exclusion for capital purposes. In March, 2015, the Board of Selectmen voted to place two Questions on the May 5, 2015 Annual Town Election ballot seeking an override of the Proposition 2½ tax levy limit. The first question sought to permanently increase the Town's tax levy limit by \$7.6M in order to fund the costs associated with increasing school enrollment. The second question was for a Debt Exclusion to fund a portion of the costs necessary to replace/expand the Devotion School. Both questions were passed successfully by the Town's electorate. The OSC also identified \$560,000 worth of municipal "efficiencies" and \$2.3 million worth of non-property tax revenue that could be pursued and used as budget capacity to support the School Department's needs in the next few years.

Future enrollment projections anticipate another 700 students in the next five years as birth trends and enrollment growth continue to be maintained at the same level as the last ten years. Currently the Town has undertaken a

major renovation/addition project planned for the Town's largest elementary school (Devotion School). Planning is underway for a 9th elementary school and the expansion of the High School. As the larger classes currently in the elementary schools replace the current smaller classes at the High School, this will require an expansion of space at that facility as well. The additional students with or without expanded infrastructure will continue to put stress on limited resources over the next few years. The enrollment issue also impacts the operating budget: with new classrooms comes the need for new teachers, supplies, and support services.

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

Through the CIP process, the Town of Brookline has identified \$276.4 million in capital improvements needed over the next six years. Large components of this total include the following:

- Anticipated school projects. It is important to note that the Devotion School renovation/addition project assumes that the Massachusetts School Building Authority (MSBA) covers 22% of the costs and the recently voted debt exclusion will cover \$49.6M of the costs. Other significant projects include funding for a portion of a high school expansion and renovation project (\$35.1 million). Any amount above the \$35.1 million will have to be funded via a Debt Exclusion Override. An anticipated major K-8 project would also require a Debt Exclusion. As previously noted, the Override Study Committee (OSC) has recommended a Debt Exclusion to support school addition project(s).
- Strategic studies included in the recommended CIP, two of which are a direct outcome of the recommendations of the Override Study Committee (OSC). These studies will help the Town identify current and projected needs for municipal facilities and services and allow for a comprehensive approach to identifying possible school use or other preferred use for major parcels and how best to encourage those uses.
- Rehabilitation of streets and sidewalks (\$20.9 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 (\$19.2 million).
- Fire station renovations, construction of a fleet maintenance facility, and fire apparatus (\$6million).
- The Village Square project in the Brookline Village / Route 9 area (\$5.9 million). The Town anticipates receiving a significant grant through the State Transportation Improvement Program (STIP) and funding the balance of the project by utilizing CDBG funds and outside sources related to the 2 Brookline Place redevelopment.
- Upgrade and maintenance of our waste water system (\$3 million), which will be borne by the water and sewer rates rather than the tax levy.

As previously detailed, enrollment in the Pre-K-8<sup>th</sup> grade elementary schools has increased significantly, placing pressure on both operating and capital budgets. In order to create additional classroom space, the Town, through its CIP, has appropriated funds for the following projects, all of which have increased the number of classrooms in the elementary schools:

- Runkle School Renovation / Addition (\$29.1 million, of which approximately 35% was paid for by the State)
- Heath School Addition (\$8.5 million, of which approximately 35% was paid for by the State)
- Classroom Capacity (an additional \$8.6 million over the course of the six years, with \$1.04 million coming in FY 2017. These funds will go toward the lease of spaces for early education programs, the rental of property to help address Pierce School space needs, leased modulars at Baker School, and costs associated with any further space conversions into classrooms within existing school buildings)

Even with this significant investment, projections show 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 and / or a Debt Exclusion override(s) will be necessary in order to accommodate the financial outlay required to deal with this most pressing issue.

### **Other Postemployment 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 2012 Biennial Actuary Analysis estimated the present value of this obligation to be \$189.9 million. At June 30, 2016, the Town had a balance of \$30 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. Although there is currently no legal requirement to make annual payments, GASB 43 requires that an actuarial analysis be completed on a bi-annual basis. In the event that a community does not appropriate sufficient funds to reach a full funding schedule as identified in the analysis, that unappropriated amount must be included as a liability. As of June 30, 2015, this liability, or the difference between the funding provided and what the Town's annual required contributions (ARC) have been, was \$52.9 million. The Town has adopted a policy to phase up to the annual required contribution (ARC) for a 30-year full funding schedule by the year 2023. Once the ARC is achieved, the Town plans to increase the annual appropriation to reduce and eliminate this temporary liability.

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, would significantly 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 30-year period. The current strategy increases the annual funding commitment each year until, in approximately FY 2023 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 could reach full funding by approximately FY 2044.

In addition, the Town continues to allocate retiree healthcare costs to all enterprise, revolving, grant, and special funds of the Town and to some of the School Department's non-general funds. It is anticipated that this policy could generate an additional \$11.6 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, which significantly reduced the OPEB liability because of their lower premiums. The Town will continue to explore strategies to reduce health care costs and/or redistribute the cost sharing and risk.

As a result of these decisions, the unfunded OPEB liability has been reduced from \$323.2 million to \$189.9 million. The next actuary analysis for the fiscal year ending June 30, 2016 will be completed by December 2016. As of FY 2012, 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 in a separate column in the fiduciary fund statements.

### **Cash Management Policies and Practices**

The Town of Brookline issues property tax bills four times a year and derives approximately 78% of its annual revenue from this source. These quarterly billings result in a reasonably steady cash flow throughout the year.

Every effort is made to put any reserve funds to work. This has become more challenging of late due to continuing changes in the rate of return for most traditional investment vehicles. Nevertheless, the Town's investment policy remains conservative with particular attention to the constraints of safety and liquidity while attempting to secure the highest yield available with those constraints.

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

Finally, a significant portion of the Town's non-expendable trust funds are currently managed by professional and nationally recognized investment management firms. Each of these funds has a distinct purpose and, therefore, the mix of holdings in cash, fixed income securities, and equities will vary by fund. The amount of annual income desired and the timing of disbursements generally govern the mix. The cash and investment commitments at June 30, 2016 for the funds maintained by the Town's Treasurer are as follows:

General Fund - Unencumbered	\$	32,322,081
General Fund - Encumbered		2,189,205
Reserved for :		
Special Revenue (Grant) Funds		13,193,989
Bond Financed Capital Projects		20,991,966
Revenue Financed Capital Projects		10,967,571
Enterprise Funds		2,941,306
Trust and Agency Funds		<u>25,150,082</u>
	\$	<u>107,756,200</u>

Of the \$107.8 million in total cash and investments, more than \$75.5 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 \$32.3 million unencumbered and not reserved for within. The amounts reported above do not include all cash and short-term investments that are accounted for within the financial statements and therefore the figures reported above are not intended to reconcile with the financial statements. As noted these amounts represent amounts maintained by the Town Treasurer.

### **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 loss 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 that are deposited into a dedicated trust fund. 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

### Performance Measurements

Performance Management is a continued focus of the Town. The Town continues to examine the measurements of departmental outputs and outcomes and seeks to better utilize these and other data sources to effectively communicate service delivery. The goal and objective development exercise is now familiar with Department Heads; so that goals cover overarching issues that the department is working on, while objectives focus on the specific initiatives of said fiscal year. The Town is currently developing a web based dashboard to better visualize a portion of these metrics, which will aid the Town in its efforts to be transparent to citizens and stakeholders. The sustained emphasis on these metrics has allowed the Town to identify efficiencies and best practices, which will be emulated across departments. Department and Division Heads will participate in a training program developed by the Government Finance Officers Association (GFOA) to further develop the Town's approach and tailor training that will be most relevant and useful in their roles.

### Cyber-Vigilance

The Town continues to invest and evaluate Cyber intrusion and data breach readiness and mitigation practices and was recently awarded two grants from the Commonwealth related to Cyber Security Awareness and a Cyber Security Incident Response Planning. Both initiatives are ongoing and complementary to existing Cyber Security compliance activities including PCI audits and website penetration and exploit evaluations.

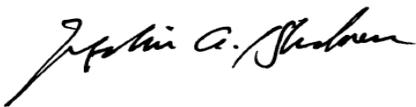
### Open Checkbook 2.0

The Town is in the process of rolling out a new tool for residents that will layout the Town's financials using interactive infographics and historical trends. The Town is looking to expand on the transparency of our finances in a way that provides more context for residents using Open Checkbook 2.0. Information from the US Census, Department of Revenue (DOR) and Department of Elementary and Secondary Education (DESE) combined information from the Town's financial system MUNIS will help residents understand how the Town operates and how those expenditures compare to similar communities.

## 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,



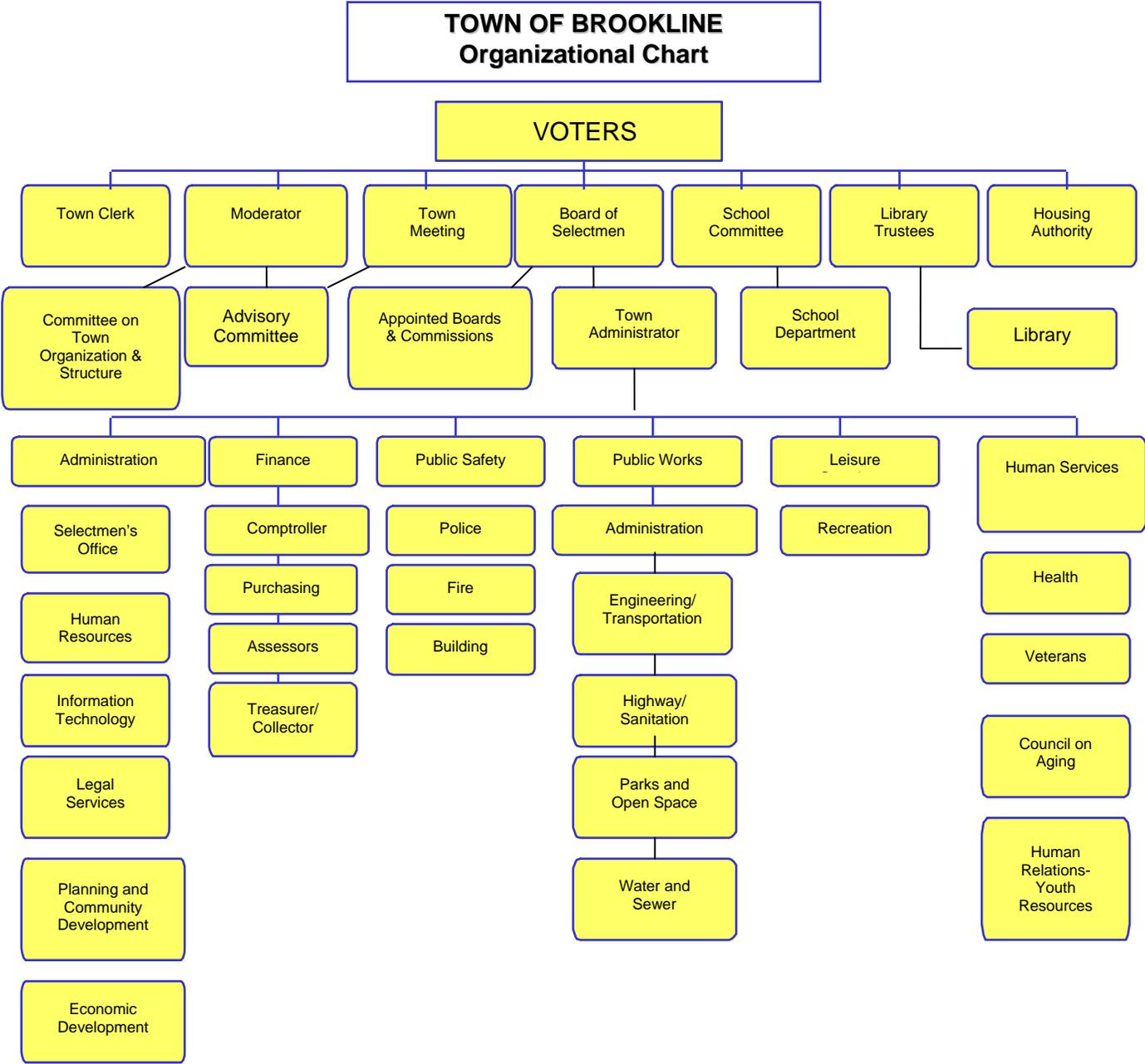
Melvin A. Kleckner  
Town Administrator



Michael F. DiPietro  
Town Comptroller

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# Organizational Charts



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

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



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## **Independent Auditor's Report**

To the Honorable Board of Selectmen  
Town of Brookline, Massachusetts

## **Report on the Financial Statements**

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 year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Brookline, Massachusetts' basic financial statements as listed in the table of contents.

## **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express opinions on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

## **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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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 financial 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.

## **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Brookline, Massachusetts' basic financial statements. The letter of transmittal and organizational charts are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The letters 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 do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, on our consideration of the Town of Brookline, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Town of Brookline's internal control over financial reporting and compliance.

*Powers + Sullivan, LLC*

December 7, 2016

***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 year ended June 30, 2016. 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 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 position* presents information on the Town's assets and deferred outflows of resources, and deferred inflows of resources and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net position changed during the most recent year. All changes in net position 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 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 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 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.

The Town has implemented GASB Statement 67, *Financial Reporting for Pension Plans*, GASB Statement 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result additional footnote disclosures and required supplementary information was added to the report, as well as the recognition of deferred outflows and the net pension liability related to the Town's pension obligations. See Note 11 for more information.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As shown below, governmental assets exceeded liabilities by \$12.2 million at the close of 2016.

For the governmental activities, net position of \$186.9 million reflect the Town's investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. \$29.1 million represents resources that are subject to external restrictions on expenditures. The balance of unrestricted net position has a year-end deficit of \$203.9 million which includes a \$55.7 million liability for postemployment benefits, and a \$215.8 million liability related to the net pension liability. Without these liabilities, the Town would have a positive unrestricted net position of \$67.7 million. Please see note 11 for more information on the net pension liability and note 12 for more information on the postemployment benefits liability.

### Governmental Activities Net Position

At the end of the current year, the Town is able to report positive balances in two out of three categories of net position. The Town's assets exceeded liabilities by \$12.2 million at the close of 2016.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>Governmental</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
<b>Assets:</b>			
Current:			
Cash and cash equivalents.....	\$ 89,870,844	\$ 75,047,219	\$ 84,203,720
Investments.....	8,991,455	8,911,284	6,872,904
Receivables, net of allowance for uncollectibles.....	15,415,285	12,090,079	10,865,534
Other current assets.....	231,084	229,973	140,297
Noncurrent assets (excluding capital).....	2,686,000	3,187,000	3,672,000
Capital assets.....	241,110,545	234,909,215	222,054,320
<b>Total assets.....</b>	<b>358,305,213</b>	<b>334,374,770</b>	<b>327,808,775</b>
<b>Deferred Outflows of Resources:</b>			
Deferred outflows of resources related to pensions...	<u>29,960,367</u>	<u>2,359,816</u>	<u>-</u>
<b>Liabilities:</b>			
Current (excluding debt):			
Warrants payable.....	1,830,899	4,214,950	2,018,686
Tax refunds payable.....	5,331,000	4,490,000	3,376,838
Compensated absences.....	6,438,619	6,470,591	6,077,454
Other current liabilities.....	8,862,758	6,449,905	7,226,468
Noncurrent (excluding debt):			
Landfill closure.....	4,529,000	4,615,000	4,718,000
Compensated absences.....	2,164,479	2,310,927	2,271,502
Postemployment benefits.....	55,737,395	51,254,226	46,473,774
Net pension liability.....	215,832,203	180,510,554	178,378,995
Other noncurrent liabilities.....	2,702,040	2,574,000	3,086,269
Current debt.....	8,158,680	7,376,962	7,172,294
Noncurrent debt.....	64,528,118	53,864,701	56,221,294
<b>Total liabilities.....</b>	<b>376,115,191</b>	<b>324,131,816</b>	<b>317,021,574</b>
<b>Net Position:</b>			
Net investment in capital assets.....	186,929,190	181,394,282	170,437,625
Restricted.....	29,119,068	26,804,311	26,027,489
Unrestricted.....	<u>(203,897,869)</u>	<u>(195,595,823)</u>	<u>(185,677,913)</u>
<b>Total net position.....</b>	<b>\$ 12,150,389</b>	<b>\$ 12,602,770</b>	<b>\$ 10,787,201</b>

The Town's governmental net position decreased by \$452 thousand in 2016. Key elements of the change are as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>Governmental</b>	<b>Governmental</b>	<b>Governmental</b>
	<b>Activities</b>	<b>Activities</b>	<b>Activities</b>
<b>Program revenues:</b>			
Charges for services.....	\$ 33,251,912	\$ 29,670,598	\$ 28,449,916
Operating grants and contributions.....	35,716,445	35,041,937	39,235,456
Capital grants and contributions.....	2,251,769	1,145,941	553,334
<b>General Revenues:</b>			
Real estate and personal property taxes.....	193,853,263	180,532,675	174,362,411
Motor vehicle and other excise taxes.....	6,369,611	6,077,704	5,803,476
Nonrestricted grants and contributions.....	6,205,949	5,742,004	5,628,515
Unrestricted investment income.....	457,978	356,741	1,232,248
Other revenues.....	5,299,319	5,588,368	5,364,268
<b>Total revenues.....</b>	<b>283,406,246</b>	<b>264,155,968</b>	<b>260,629,624</b>
<b>Expenses:</b>			
General government.....	24,196,141	20,717,826	20,840,075
Public safety.....	61,171,320	56,202,290	54,518,656
Education.....	155,073,193	141,909,177	141,781,878
Public works.....	25,576,266	26,025,492	23,878,641
Community and economic development.....	1,405,465	1,110,103	2,094,961
Human services.....	5,361,159	6,229,864	5,323,343
Leisure services.....	11,375,140	10,478,515	10,179,687
Interest.....	1,769,183	1,706,870	1,959,110
<b>Total expenses.....</b>	<b>285,927,867</b>	<b>264,380,137</b>	<b>260,576,351</b>
<b>Excess (deficiency) before transfers.....</b>	<b>(2,521,621)</b>	<b>(224,169)</b>	<b>53,273</b>
<b>Transfers In.....</b>	<b>2,069,240</b>	<b>2,039,738</b>	<b>2,178,882</b>
<b>Change in net position.....</b>	<b>(452,381)</b>	<b>1,815,569</b>	<b>2,232,155</b>
<b>Beginning net position.....</b>	<b>12,602,770</b>	<b>10,787,201</b>	<b>8,555,046</b>
<b>Ending net position.....</b>	<b>\$ 12,150,389</b>	<b>\$ 12,602,770</b>	<b>\$ 10,787,201</b>

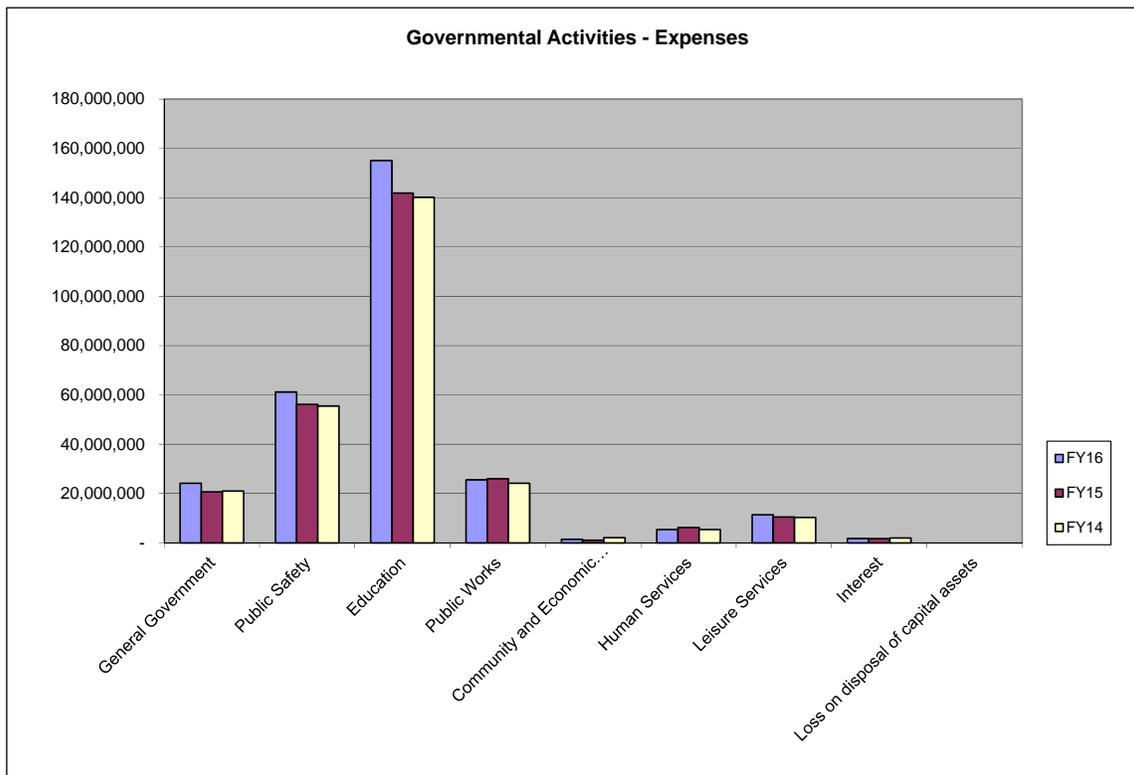
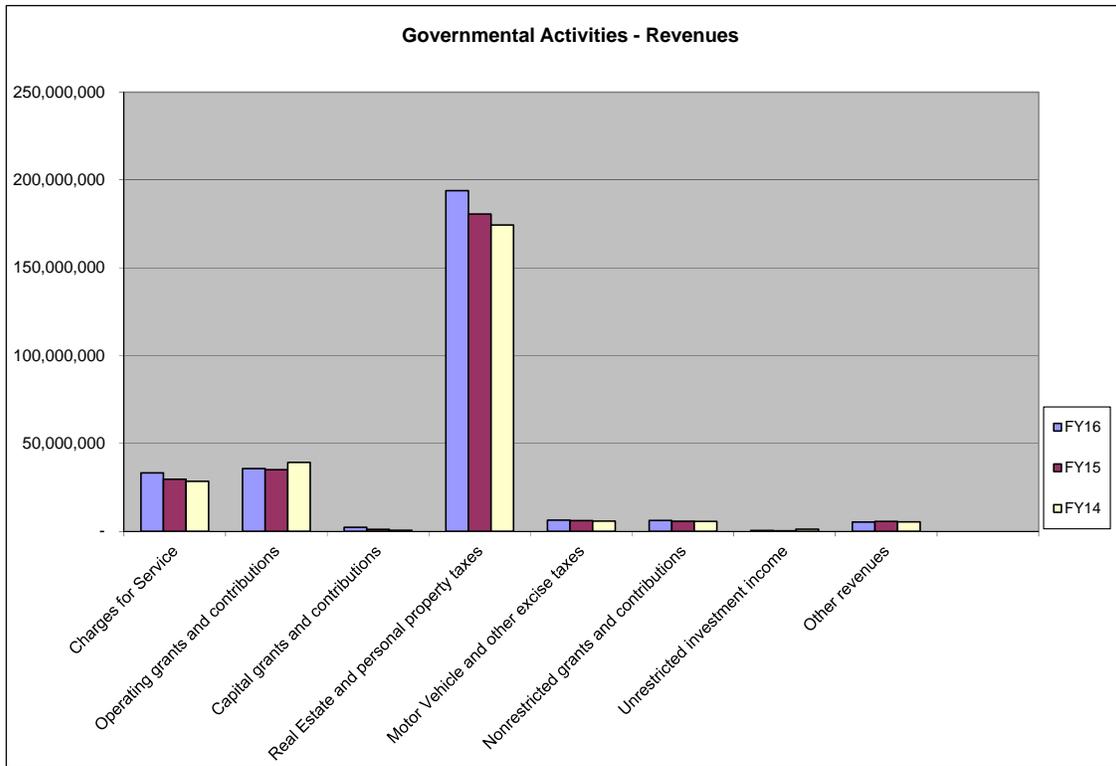
The decrease in net position is due to several factors.

Reducing net position was a \$4.5 million increase in the Postemployment benefits accrual; the fact that depreciation expense exceeded principal payments on long-term debt by \$5.7 million, an increase in the accrual for outstanding appellate tax board cases of \$841 thousand, and an increase in the net pension liability of \$35.3 million related to the implementation of GASB Statement #68, Accounting and Financial Reporting for Pensions.

These reductions were offset by capital grants of \$1.3 million related to the MSBA reimbursement of various school construction projects, \$8 thousand related to Improvements to Davis Park and the Boylston Street Playground, and \$970 thousand related to Chapter 90 grant allocations, an increase in the deferred outflow related to pensions of \$27.6 million, a budgetary surplus of \$5.6 million, the timing of the receipt of grant revenues versus the expenditure of such funds, as well as the Town's ability to fund approximately \$11.9 million of capital additions from current revenues.

The governmental expenses totaled \$285.9 million of which \$71.2 million (24.9%) was directly supported by program revenues consisting of charges for services, operating grants and contributions and capital grants. General revenues totaled \$212.2 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 2016 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 year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$80.4 million which is comprised of \$28.8 million in the general fund, \$8.3 million in the Devotion School renovation fund, \$10.4 million in the capital articles fund, and \$32.9 million in the nonmajor funds.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$21.3 million, while total fund balance was \$28.8 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 8.7% of total general fund expenditures, while total fund balance represents 11.8% of that same amount. A good range for unassigned fund balance is 5-10% of total general fund expenditures of which the Town consistently falls within.

Fund balance of the General Fund increased by \$4.3 million during 2016. This is primarily due to a budgetary surplus of \$5.6 million offset by an increase in the liability for tax refunds payable of \$841 thousand.

The Devotion School Renovation Fund is used to account for financial resources for the renovation of the Devotion School building. At the end of the current year, this fund has a fund balance of \$8.3 million. This is primarily the result of the issuance of \$10 million of long-term debt that is in the process of being spent.

The Capital Article Fund is used to account for various revenue financed capital projects. At the end of the current year the fund has a fund balance of \$10.4 million.

The Chapter 90 Highway fund is used to account for financial resources for the construction, reconstruction, and improvements to roadways, streets, and sidewalks. There were no chapter 90 revenues or expenditures during 2016. As a result the fund has a zero fund balance at year end.

### **General Fund Budgetary Highlights**

There was a \$182 thousand increase between the original and final budget. This change represents appropriation the net increases/decreases to various budgetary line items. The Town has elected to carry forward encumbrances and appropriations totaling \$2.2 million.

**Business-type Activities.**

Key elements of the business-type activities are as follows:

	<u>2016</u> <u>Water &amp; Sewer</u> <u>Activities</u>	<u>2015</u> <u>Water &amp; Sewer</u> <u>Activities</u>	<u>2014</u> <u>Water &amp; Sewer</u> <u>Activities</u>
<b>Assets:</b>			
Current:			
Cash and short-term investments.....	\$ 7,251,651	\$ 6,836,986	\$ 6,343,900
Receivables, net of allowance for uncollectibles.....	7,127,639	6,466,309	5,790,703
Other current assets.....	13,988	14,427	14,309
Capital assets.....	58,583,581	58,340,309	58,842,751
<b>Total assets.....</b>	<b>72,976,859</b>	<b>71,658,031</b>	<b>70,991,663</b>
<b>Deferred Outflows of Resources:</b>			
Deferred outflows of resources related to pensions....	<u>627,130</u>	<u>48,436</u>	<u>-</u>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	1,116,036	379,881	955,984
Noncurrent liabilities (excluding debt).....	6,197,095	5,352,879	5,391,279
Current debt.....	1,986,697	2,158,259	1,865,288
Noncurrent debt.....	6,113,222	7,099,918	7,485,433
<b>Total liabilities.....</b>	<b>15,413,050</b>	<b>14,990,937</b>	<b>15,697,984</b>
<b>Net Position:</b>			
Net investment in capital assets.....	54,197,734	53,485,246	52,941,786
Unrestricted.....	3,993,205	3,230,284	2,351,893
<b>Total net position.....</b>	<b>58,190,939</b>	<b>56,715,530</b>	<b>55,293,679</b>
<b>Program revenues:</b>			
Charges for services.....	28,311,805	27,253,737	26,800,899
Capital grants and contributions.....	-	1,035,335	-
<b>General Revenues:</b>			
Unrestricted investment income.....	9,195	3,685	8,652
<b>Total revenues.....</b>	<b>28,321,000</b>	<b>28,292,757</b>	<b>26,809,551</b>
<b>Expenses:</b>			
Water and sewer.....	24,904,142	24,944,217	23,213,651
<b>Excess (deficiency) before transfers.....</b>	<b>3,416,858</b>	<b>3,348,540</b>	<b>3,595,900</b>
<b>Transfers In/(Out).....</b>	<b>(1,941,449)</b>	<b>(1,926,689)</b>	<b>(2,078,466)</b>
<b>Change in net position.....</b>	<b>1,475,409</b>	<b>1,421,851</b>	<b>1,517,434</b>
<b>Beginning net position.....</b>	<b>56,715,530</b>	<b>55,293,679</b>	<b>53,776,245</b>
<b>Ending net position.....</b>	<b>\$ 58,190,939</b>	<b>\$ 56,715,530</b>	<b>\$ 55,293,679</b>

The water and sewer enterprise net position increased by \$1.5 million during the current year. This was primarily attributable to an increase in the water and sewer rates, the fact that principle payments on long-term debt exceeded depreciation expense by \$501 thousand and the funds ability to increase revenues while maintaining level operating costs.

	<b>2016</b>	<b>2015</b>	<b>(As Revised)</b>
	<b>Golf Course</b>	<b>Golf Course</b>	<b>2014</b>
	<b>Activities</b>	<b>Activities</b>	<b>Golf Course</b>
	<b>Activities</b>	<b>Activities</b>	<b>Activities</b>
<b>Assets:</b>			
Current:			
Cash and short-term investments.....	\$ 426,729	\$ 777,037	\$ 682,395
Other current assets.....	69,849	-	-
Capital assets.....	3,309,885	2,617,627	2,749,284
<b>Total assets.....</b>	<b>3,806,463</b>	<b>3,394,664</b>	<b>3,431,679</b>
<b>Deferred Outflows of Resources:</b>			
Deferred outflows of resources related to pensions....	<b>45,886</b>	<b>3,633</b>	-
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	286,501	136,287	186,588
Noncurrent liabilities (excluding debt).....	913,360	908,888	949,815
Current debt.....	150,000	154,000	150,000
Noncurrent debt.....	845,000	995,000	949,000
<b>Total liabilities.....</b>	<b>2,194,861</b>	<b>2,194,175</b>	<b>2,235,403</b>
<b>Net Position:</b>			
Net investment in capital assets.....	2,457,376	1,844,120	1,896,724
Unrestricted.....	(1,299,888)	(639,998)	(700,448)
<b>Total net position.....</b>	<b>1,157,488</b>	<b>1,204,122</b>	<b>1,196,276</b>
<b>Program revenues:</b>			
Charges for services.....	1,275,928	1,283,301	1,235,323
<b>General Revenues:</b>			
Unrestricted investment income.....	756	15,529	37,891
<b>Total revenues.....</b>	<b>1,276,684</b>	<b>1,298,830</b>	<b>1,273,214</b>
<b>Expenses:</b>			
Golf.....	1,195,527	1,177,935	1,076,846
<b>Excess (deficiency) before transfers.....</b>	<b>81,157</b>	<b>120,895</b>	<b>196,368</b>
<b>Transfers In/(Out).....</b>	<b>(127,791)</b>	<b>(113,049)</b>	<b>(100,416)</b>
<b>Change in net position.....</b>	<b>(46,634)</b>	<b>7,846</b>	<b>95,952</b>
<b>Beginning net position.....</b>	<b>1,204,122</b>	<b>1,196,276</b>	<b>1,100,324</b>
<b>Ending net position.....</b>	<b>\$ 1,157,488</b>	<b>\$ 1,204,122</b>	<b>\$ 1,196,276</b>

The golf enterprise net position decreased by \$46.6 thousand during the current year. The decrease is primarily the result of an increase in depreciation expense related to ongoing projects at the golf course, coupled with a decrease in both operating revenues and investment income.

### **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 last 10 years (FY06 -

FY16), the Town has authorized expenditures of \$323 million, for an average of nearly \$29 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 2017 – FY 2022 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. It also continued to fund school projects related to the enrollment surge of the past few years.

In addition to the 6% financing called for in the CIP Policy, Free Cash and State/Federal grants are 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 / protecting fund balance levels so that total CIP funding is equal to 7.5% of the prior year's net revenue. 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, 2015 was \$7.8 million. After funding strategic reserves to the levels called for in the Town's Reserve policies, and after leaving \$2.5 million un-appropriated 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 2017. For the out-years of the CIP, approximately \$4.4 million is estimated for Free Cash, which yields between \$3.5 - \$3.9 million per year for the CIP.

State/Federal grants total \$43.5 million over the six-year period. Of this amount, \$26 million represents the potential State share of the Devotion School Renovation project. The CIP assumed 22% funding by the Massachusetts School Building Authority (MSBA) for the Devotion School project; the Town will continue to work with the MSBA as the project moves forward.

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.

Each year, many challenges present themselves when putting together a balanced CIP that addresses the priorities of the community while staying within CIP financing policies. This year has been a challenge like no other. The financial pressure exerted by the school overcrowding issue and other new, legitimate demands, coupled with maintaining other projects that are priorities of the Town, presents a number of challenges. Our K-12 student population has grown by 28.6% since FY 2006 from 5,766 students to 7,412. The district's K-8 enrollment increased by 40.3% during the last 10 years, growing by 1,570 students. To put this growth in context, it is equivalent to adding the combined student population of the Pierce and Baker Schools into our existing eight buildings since 2006. In just the past five years, K-8 enrollment has actually accelerated, and we have added 814 students since 2010.

While the increase in size of Brookline's kindergarten enrollment has driven the growth, these larger elementary grades will soon begin to enter the high school. Brookline High School has grown 4.1% in the last ten years, with a five-year growth of 12.7%. In the past five years, student enrollment at the high school has increased from 1,726 students to 1,946. Currently, grades Kindergarten through 4th average 651 students this year, while grades 8-12 are still averaging only 490 students. We project that there will be more than 2,400 students attending Brookline High School in grades 9-12 by the school year 2020-2021. This CIP continues to address the overcrowding issue in a comprehensive manner:

- **Classroom Capacity** – in both FY08 and FY10, Town Meeting appropriated \$400,000 to address space needs, followed by \$530,000 in FY11 and \$1.75 million in FY's 13-15. The CIP includes an additional \$8.6 million over the course of the six years, with \$2.25 million coming in FY16. The Classroom Capacity item in FY 2017 covers the additional space leased from synagogues, 62 Harvard, 24 Webster Place and the Baker modules (\$992K) with very limited funding to modify smaller spaces in existing buildings (\$46K). The FY2018 – 2022 budgets assume continuation of those lease arrangements.
- **School Studies** – In October, 2014, a study was commissioned by the Selectmen and School Committee to focus on identifying and evaluating sites throughout Brookline that may be able to accommodate a new or expanded school in order to address the rapidly escalating school population. A final site was identified in the fall of 2016. This funding for School Studies would include a feasibility study for the High School and the 9th School site, as identified by both Boards this fall. It is projected that approximately \$500,000 will support the High School feasibility study and \$300,000 will be needed for the 9th School feasibility study.
- **High School** – with the larger grades making their way through the elementary schools, they will soon be at the High School. This Preliminary CIP provides funding for a portion of a high school expansion and renovation project. The School Committee, the Board of Selectmen, and the Advisory Committee all voted unanimously to proceed with the process for the 9th Elementary School and Brookline High School renovation and expansion without submitting a Statement of Interest to the Massachusetts School Building Authority to allow for more flexibility in the design processes and to meet the timelines for the projects. Any amount above the \$35.1 million identified as the capacity available in the CIP to fund this project will have to be funded via a Debt Exclusion Override.

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 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 2016, together with outstanding encumbrances and available budget balances, for both Debt and Revenue Funded Capital Projects:

	All Capital Improvement Projects			Revenue Financed Projects			Debt Financed Projects		
	Expended in		Available	Expended in		Available	Expended in		Available
	Fiscal 2016	Encumbrances	Budget	Fiscal 2016	Encumbrances	Budget	Fiscal 2016	Encumbrances	Budget
General Government Capital Equ./Planning	602,051	96,349	292,496	602,051	96,349	292,496	-	-	-
Building Projects	11,318,328	19,772,761	101,850,952	4,536,152	636,272	1,438,475	6,782,176	19,136,489	100,412,477
Public Safety Projects	1,092,650	268,011	65,047	442,137	268,011	65,047	650,513	-	-
DPW Projects	8,184,391	2,783,902	16,001,318	7,146,230	1,727,327	5,457,838	1,038,161	1,056,575	10,543,480
Recreation Projects	123,748	211,288	1,339,964	20,195	45,991	608,814	103,553	165,297	731,150
Library Projects	-	23,387	-	-	23,387	-	-	-	-
DPW Enterprise Related Projects	997,126	1,915,528	1,499,247	-	-	-	997,126	1,915,528	1,499,247
Golf Enterprise Projects	629,449	10,000	1,044	-	-	-	629,449	10,000	1,044
<b>GRAND TOTAL</b>	<b>22,947,744</b>	<b>25,081,226</b>	<b>121,050,067</b>	<b>12,746,765</b>	<b>2,797,336</b>	<b>7,862,670</b>	<b>10,200,979</b>	<b>22,283,890</b>	<b>113,187,397</b>

### Capital Asset and Debt Administration

**Capital Assets.** The Town of Brookline's investment in capital assets for its governmental and business type activities as of June 30, 2016, amount to \$303 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 \$7.1 million, including a \$6.2 million increase for governmental activities and a \$936 thousand increase for business-type activities.

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

Major Capital asset additions during the current year included the following:

- ❖ Approximately \$1.4 million was capitalized for the Old Lincoln School.
- ❖ Approximately \$3.4 million was capitalized for the planning and construction of the Devotion School.
- ❖ Approximately \$5.4 million was spent on roads, sidewalks, wastewater, and other related infrastructure.
- ❖ Approximately \$2.2 million was spent on machinery and equipment.
- ❖ Approximately \$8.5 million related to various building improvements and renovations.
- ❖ Approximately \$933 thousand was spent on golf course improvements.

Please see Note 4 for further capital asset information.

<b>Town of Brookline's Capital Assets</b>						
<b>(Net of Depreciation)</b>						
	<b>Governmental</b>		<b>Business –Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Land</b>	874,873	874,873	-	-	874,873	874,873
<b>Construction in Progress</b>	9,025,734	4,208,412	-	-	9,025,734	4,208,412
<b>Land Improvements</b>	18,730,847	17,592,547	2,089,524	1,307,817	20,820,371	18,900,364
<b>Buildings</b>	175,525,354	177,184,801	2,773,187	2,925,690	178,298,541	180,110,491
<b>Machinery and Equipment</b>	10,940,542	10,956,998	764,803	780,066	11,705,345	11,737,064
<b>Infrastructure</b>	26,013,195	24,091,584	56,265,952	55,944,363	82,279,147	80,035,947
<b>Total</b>	<b>241,110,545</b>	<b>234,909,215</b>	<b>61,893,466</b>	<b>60,957,936</b>	<b>303,004,011</b>	<b>295,867,151</b>

**Long-term Debt.** At the end of the current year, the Town of Brookline had total bonded debt outstanding of \$81.8 million of which \$72.7 is governmental debt and \$9.1 is business-type debt. This entire amount is classified as outstanding long-term debt. During 2016, the Town retired \$7.2 million of governmental long-term debt and \$2.3 million of business-type long-term debt. The Town issued \$17.7 million of governmental and \$1.0 million of business-type debt net of capitalized bond premiums.

The Town also issued a Bond Anticipation note for \$500,000 related to golf course improvements.

In order to take advantage of favorable interest rates, the Town issued \$6,075,000 of General Obligation Refunding Bonds on March 29, 2016. \$6,350,000 of general obligation bonds were refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This refunding was undertaken to reduce total debt service payments over the next 12 years by \$733,586 and resulted in an economic gain of \$623,843.

Please see notes 6 and 7 for further debt information.

In 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 a project at the Devotion School under this

program. Through the end of FY2016, the Town has recorded capital grant revenue totaling approximately \$1.9 million, from the MSBA which is equal to 35.84% of approved construction costs incurred to date. The Town received reimbursements related to the Devotion School for approximately \$768 thousand in 2016 and recorded a receivable of \$791 thousand.

### **Cash and Investments**

At June 30, 2016, the Town had recorded a Cash and Investments balance of \$137,583,386. Additional adjustments for accounts not maintained by the Treasurer, but included in overall financial statement cash, were Library Cash of \$322,575; Investment accounts maintained by the Trustees of the Brookline Public Library of \$4,857,443; and Cash and Investment accounts maintained by the Brookline Retirement System of \$10,967 and \$256,167,885, respectively. This resulted in total Cash and Investments of \$398,942,256 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 POSITION**

JUNE 30, 2016

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 89,870,844	\$ 7,678,380	\$ 97,549,224
Investments.....	8,991,455	-	8,991,455
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	3,119,885	-	3,119,885
Tax liens.....	2,058,503	-	2,058,503
Motor vehicle excise taxes.....	85,149	-	85,149
User fees.....	102,686	-	102,686
Water and sewer fees.....	-	7,127,639	7,127,639
Departmental and other.....	3,734,951	-	3,734,951
Intergovernmental.....	6,285,994	-	6,285,994
Loans.....	28,117	-	28,117
Internal balances.....	50,000	(50,000)	-
Other assets.....	181,084	83,837	264,921
<b>NONCURRENT:</b>			
Intergovernmental.....	2,161,000	-	2,161,000
Internal balances.....	525,000	(525,000)	-
Capital assets, nondepreciable.....	9,900,607	-	9,900,607
Capital assets, net of accumulated depreciation.....	<u>231,209,938</u>	<u>61,893,466</u>	<u>293,103,404</u>
<b>TOTAL ASSETS.....</b>	<u>358,305,213</u>	<u>76,208,322</u>	<u>434,513,535</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions.....	<u>29,960,367</u>	<u>673,016</u>	<u>30,633,383</u>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	1,830,899	916,270	2,747,169
Accrued liabilities.....	48,998	13,290	62,288
Accrued payroll.....	5,378,068	-	5,378,068
Tax refunds payable.....	5,331,000	-	5,331,000
Accrued interest.....	685,928	70,617	756,545
Abandoned property.....	190,338	-	190,338
Other liabilities.....	959,759	14,162	973,921
Unearned revenue.....	1,172,775	-	1,172,775
Liabilities due depositors.....	1,932	-	1,932
Landfill closure.....	190,000	-	190,000
Compensated absences.....	6,438,619	338,198	6,776,817
Workers' compensation.....	234,960	-	234,960
Notes payable.....	-	500,000	500,000
Bonds payable.....	8,158,680	2,136,697	10,295,377
<b>NONCURRENT:</b>			
Landfill closure.....	4,529,000	-	4,529,000
Compensated absences.....	2,164,479	97,740	2,262,219
Workers' compensation.....	2,702,040	-	2,702,040
Postemployment benefits.....	55,737,395	1,639,357	57,376,752
Net pension liability.....	215,832,203	4,848,358	220,680,561
Bonds payable.....	<u>64,528,118</u>	<u>6,958,222</u>	<u>71,486,340</u>
<b>TOTAL LIABILITIES.....</b>	<u>376,115,191</u>	<u>17,532,911</u>	<u>393,648,102</u>
<b>NET POSITION</b>			
Net investment in capital assets.....	186,929,190	56,655,110	243,584,300
Restricted for:			
Loans.....	28,117	-	28,117
Permanent funds:			
Expendable.....	5,955,334	-	5,955,334
Nonexpendable.....	1,701,420	-	1,701,420
Other purposes.....	21,434,197	-	21,434,197
Unrestricted.....	<u>(203,897,869)</u>	<u>2,693,317</u>	<u>(201,204,552)</u>
<b>TOTAL NET POSITION.....</b>	<u>\$ 12,150,389</u>	<u>\$ 59,348,427</u>	<u>\$ 71,498,816</u>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

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.....	\$ 24,196,141	\$ 7,508,081	\$ 1,176,990	\$ -	\$ (15,511,070)
Public safety.....	61,171,320	10,229,701	478,336	-	(50,463,283)
Education.....	155,073,193	8,350,212	31,143,179	1,274,164	(114,305,638)
Public works.....	25,576,266	3,816,780	619,767	969,605	(20,170,114)
Community and economic development.....	1,405,465	-	1,356,412	-	(49,053)
Human services.....	5,361,159	11,045	519,378	-	(4,830,736)
Leisure services.....	11,375,140	3,336,093	301,525	8,000	(7,729,522)
Interest.....	1,769,183	-	120,858	-	(1,648,325)
Total Governmental Activities.....	<u>285,927,867</u>	<u>33,251,912</u>	<u>35,716,445</u>	<u>2,251,769</u>	<u>(214,707,741)</u>
<i>Business-Type Activities:</i>					
Golf.....	1,195,527	1,275,928	-	-	80,401
Water and sewer.....	<u>24,904,142</u>	<u>28,311,805</u>	-	-	<u>3,407,663</u>
Total Business-Type Activities.....	<u>26,099,669</u>	<u>29,587,733</u>	-	-	<u>3,488,064</u>
Total Primary Government.....	<u>\$ 312,027,536</u>	<u>\$ 62,839,645</u>	<u>\$ 35,716,445</u>	<u>\$ 2,251,769</u>	<u>\$ (211,219,677)</u>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

YEAR ENDED JUNE 30, 2016

	Primary Government		
	Governmental	Business-type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page.....	\$ <b>(214,707,741)</b>	\$ <b>3,488,064</b>	\$ <b>(211,219,677)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	193,853,263	-	193,853,263
Motor vehicle and other excise taxes.....	6,369,611	-	6,369,611
Hotel/motel tax.....	1,587,568	-	1,587,568
Local meals tax.....	1,125,291	-	1,125,291
Penalties and interest on taxes.....	490,062	-	490,062
Payments in lieu of taxes.....	1,042,912	-	1,042,912
Grants and contributions not restricted to specific programs.....	6,205,949	-	6,205,949
Unrestricted investment income.....	457,978	9,951	467,929
Miscellaneous.....	1,053,486	-	1,053,486
<i>Transfers, net</i> .....	2,069,240	(2,069,240)	-
Total general revenues and transfers.....	<u>214,255,360</u>	<u>(2,059,289)</u>	<u>212,196,071</u>
Change in net position.....	(452,381)	1,428,775	976,394
<i>Net Position:</i>			
Beginning of year.....	<u>12,602,770</u>	<u>57,919,652</u>	<u>70,522,422</u>
End of year.....	\$ <u><u>12,150,389</u></u>	\$ <u><u>59,348,427</u></u>	\$ <u><u>71,498,816</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2016

<b>ASSETS</b>	General	Devotion School Renovation	Capital Article Fund	Chapter 90 Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 40,526,415	\$ 7,650,368	\$ 10,626,805	\$ -	\$ 25,013,276	\$ 83,816,864
Investments.....	-	-	-	-	8,991,455	8,991,455
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	3,119,885	-	-	-	-	3,119,885
Tax liens.....	2,058,503	-	-	-	-	2,058,503
Motor vehicle excise taxes.....	85,149	-	-	-	-	85,149
User fees.....	102,686	-	-	-	-	102,686
Departmental and other.....	3,699,734	-	-	-	35,217	3,734,951
Intergovernmental.....	2,612,000	790,788	-	3,458,109	1,586,097	8,446,994
Loans.....	-	-	-	-	28,117	28,117
Due from other funds.....	575,000	-	-	-	-	575,000
Other assets.....	125,281	-	50,000	-	5,803	181,084
<b>TOTAL ASSETS.....</b>	<b>\$ 52,904,653</b>	<b>\$ 8,441,156</b>	<b>\$ 10,676,805</b>	<b>\$ 3,458,109</b>	<b>\$ 35,659,965</b>	<b>\$ 111,140,688</b>
<b>LIABILITIES</b>						
Warrants payable.....	\$ 674,696	\$ 183,530	\$ 304,164	\$ -	\$ 660,510	\$ 1,822,900
Accrued liabilities.....	6,643	7,673	5,160	-	29,522	48,998
Accrued payroll.....	5,345,958	-	-	-	32,110	5,378,068
Tax refunds payable.....	5,331,000	-	-	-	-	5,331,000
Liabilities due depositors.....	1,932	-	-	-	-	1,932
Abandoned property.....	190,338	-	-	-	-	190,338
Other liabilities.....	959,759	-	-	-	-	959,759
Unearned revenue.....	294,797	-	-	-	877,977	1,172,774
<b>TOTAL LIABILITIES.....</b>	<b>12,805,123</b>	<b>191,203</b>	<b>309,324</b>	<b>-</b>	<b>1,600,119</b>	<b>14,905,769</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue.....	11,254,504	-	-	3,458,109	1,147,339	15,859,952
<b>FUND BALANCES</b>						
Nonspendable.....	-	-	-	-	1,701,420	1,701,420
Restricted.....	-	-	-	-	22,786,583	22,786,583
Committed.....	-	8,249,953	10,367,481	-	8,424,504	27,041,938
Assigned.....	7,499,144	-	-	-	-	7,499,144
Unassigned.....	21,345,882	-	-	-	-	21,345,882
<b>TOTAL FUND BALANCES.....</b>	<b>28,845,026</b>	<b>8,249,953</b>	<b>10,367,481</b>	<b>-</b>	<b>32,912,507</b>	<b>80,374,967</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....</b>	<b>\$ 52,904,653</b>	<b>\$ 8,441,156</b>	<b>\$ 10,676,805</b>	<b>\$ 3,458,109</b>	<b>\$ 35,659,965</b>	<b>\$ 111,140,688</b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

Total governmental fund balances.....		\$ 80,374,967
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		241,110,545
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		15,859,951
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		29,960,367
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 position.....		3,108,981
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(685,928)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable.....	(70,252,500)	
Landfill closure.....	(4,719,000)	
Unamortized premium on bonds payable.....	(2,434,298)	
Postemployment benefits.....	(55,737,395)	
Net pension liability.....	(215,832,203)	
Compensated absences.....	(8,603,098)	
Net effect of reporting long-term liabilities.....		<u>(357,578,494)</u>
Net position of governmental activities.....		<u>\$ 12,150,389</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

	General	Devotion School Renovation	Capital Article Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 193,154,423	\$ -	\$ -	\$ -	\$ 193,154,423
Motor vehicle and other excise taxes.....	6,360,901	-	-	-	6,360,901
Hotel/motel tax.....	1,587,568	-	-	-	1,587,568
Local meals tax.....	1,125,291	-	-	-	1,125,291
Charges for services.....	5,395,221	-	-	-	5,395,221
Penalties and interest on taxes.....	499,590	-	-	-	499,590
Payments in lieu of taxes.....	1,042,912	-	-	-	1,042,912
Licenses and permits.....	5,694,293	-	-	-	5,694,293
Fines and forfeitures.....	4,146,004	-	-	-	4,146,004
Intergovernmental.....	29,717,808	1,274,265	-	10,439,894	41,431,967
Departmental and other.....	1,652,830	-	-	16,159,917	17,812,747
Contributions.....	-	-	-	2,143,835	2,143,835
Investment income.....	262,373	-	-	174,673	437,046
<b>TOTAL REVENUES.....</b>	<b>250,639,214</b>	<b>1,274,265</b>	<b>-</b>	<b>28,918,319</b>	<b>280,831,798</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	11,014,165	-	1,621,317	1,574,000	14,209,482
Public safety.....	36,670,261	-	1,250,996	1,614,775	39,536,032
Education.....	95,715,553	3,425,990	2,518,409	17,139,107	118,799,059
Public works.....	14,870,354	-	4,343,597	1,702,810	20,916,761
Community and economic development.....	-	-	-	1,405,465	1,405,465
Human services.....	2,605,611	-	1,966,520	824,579	5,396,710
Leisure services.....	4,969,813	-	168,512	2,955,711	8,094,036
Pension benefits.....	29,388,794	-	-	-	29,388,794
Fringe benefits.....	34,511,940	-	-	-	34,511,940
State and county charges.....	6,283,848	-	-	-	6,283,848
Debt service:					
Principal.....	7,163,794	-	-	-	7,163,794
Interest.....	2,001,989	-	-	-	2,001,989
<b>TOTAL EXPENDITURES.....</b>	<b>245,196,122</b>	<b>3,425,990</b>	<b>11,869,351</b>	<b>27,216,447</b>	<b>287,707,910</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>5,443,092</b>	<b>(2,151,725)</b>	<b>(11,869,351)</b>	<b>1,701,872</b>	<b>(6,876,112)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from bonds.....	-	10,000,000	-	7,735,000	17,735,000
Proceeds from refunding bonds.....	6,075,000	-	-	-	6,075,000
Premium from issuance of bonds, net of expenditures.....	1,362,097	-	-	-	1,362,097
Premium from issuance of refunding bonds.....	777,872	-	-	-	777,872
Payments to refunded bond escrow agent.....	(6,915,822)	-	-	-	(6,915,822)
Transfers in.....	6,798,864	-	9,083,000	163,078	16,044,942
Transfers out.....	(9,246,078)	-	(500)	(4,729,124)	(13,975,702)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(1,148,067)</b>	<b>10,000,000</b>	<b>9,082,500</b>	<b>3,168,954</b>	<b>21,103,387</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>4,295,025</b>	<b>7,848,275</b>	<b>(2,786,851)</b>	<b>4,870,826</b>	<b>14,227,275</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>24,550,001</b>	<b>401,678</b>	<b>13,154,332</b>	<b>28,041,681</b>	<b>66,147,692</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 28,845,026</b>	<b>\$ 8,249,953</b>	<b>\$ 10,367,481</b>	<b>\$ 32,912,507</b>	<b>\$ 80,374,967</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**

YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds.....		\$ 14,227,275
<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.....	19,048,090	
Depreciation expense.....	<u>(12,846,760)</u>	
Net effect of reporting capital assets.....		6,201,330
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable 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 inflows of resources.....</p>		
		2,553,516
<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 position. 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.....	(17,735,000)	
Proceeds from refunding bonds.....	(6,075,000)	
Amortization of bond premiums.....	213,168	
Premium from issuance of refunding bonds.....	(777,872)	
Payments to refunding bond escrow agent.....	6,915,822	
Deferred charges on refunding.....	212,050	
Debt service principal payments.....	<u>7,163,794</u>	
Net effect of reporting long-term debt.....		(10,083,038)
<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.....	178,420	
Net change in accrued interest on long-term debt.....	(192,412)	
Net change in postemployment benefit accrual.....	(4,483,169)	
Net change in landfill accrual.....	66,000	
Net change in deferred outflow/(inflow) of resources related to pensions.....	27,600,551	
Net change in un-amortized bond premiums.....	(1,362,097)	
Net change in net pension liability.....	<u>(35,321,649)</u>	
Net effect of recording long-term liabilities.....		(13,514,356)
<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>162,892</u>
Change in net position of governmental activities.....		<u>\$ (452,381)</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**

JUNE 30, 2016

	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.....	\$ 7,251,651	\$ 426,729	\$ 7,678,380	\$ 6,053,980
Receivables, net of allowance for uncollectibles:				
Water and sewer fees.....	7,127,639	-	7,127,639	-
Other assets.....	13,988	69,849	83,837	-
Total current assets.....	<u>14,393,278</u>	<u>496,578</u>	<u>14,889,856</u>	<u>6,053,980</u>
<b>NONCURRENT:</b>				
Capital assets, net of accumulated depreciation.....	58,583,581	3,309,885	61,893,466	-
<b>TOTAL ASSETS.....</b>	<u>72,976,859</u>	<u>3,806,463</u>	<u>76,783,322</u>	<u>6,053,980</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources related to pensions.....	627,130	45,886	673,016	-
<b>LIABILITIES</b>				
<b>CURRENT:</b>				
Warrants payable.....	757,042	159,228	916,270	7,999
Accrued liabilities.....	13,290	-	13,290	-
Accrued interest.....	62,548	8,069	70,617	-
Due to other funds.....	-	50,000	50,000	-
Other liabilities.....	-	14,162	14,162	-
Compensated absences.....	283,156	55,042	338,198	-
Workers' compensation.....	-	-	-	234,960
Notes payable.....	-	500,000	500,000	-
Bonds payable.....	1,986,697	150,000	2,136,697	-
Total current liabilities.....	<u>3,102,733</u>	<u>936,501</u>	<u>4,039,234</u>	<u>242,959</u>
<b>NONCURRENT:</b>				
Due to other funds.....	-	525,000	525,000	-
Compensated absences.....	86,490	11,250	97,740	-
Workers' compensation.....	-	-	-	2,702,040
Postemployment benefits.....	1,592,805	46,552	1,639,357	-
Net pension liability.....	4,517,800	330,558	4,848,358	-
Bonds payable.....	6,113,222	845,000	6,958,222	-
Total noncurrent liabilities.....	<u>12,310,317</u>	<u>1,758,360</u>	<u>14,068,677</u>	<u>2,702,040</u>
<b>TOTAL LIABILITIES.....</b>	<u>15,413,050</u>	<u>2,694,861</u>	<u>18,107,911</u>	<u>2,944,999</u>
<b>NET POSITION</b>				
Net investment in capital assets.....	54,197,734	2,457,376	56,655,110	-
Unrestricted.....	3,993,205	(1,299,888)	2,693,317	3,108,981
<b>TOTAL NET POSITION.....</b>	<u>\$ 58,190,939</u>	<u>\$ 1,157,488</u>	<u>\$ 59,348,427</u>	<u>\$ 3,108,981</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

	<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>				
Charges for services .....	\$ 28,311,805	\$ 1,275,928	\$ 29,587,733	\$ -
Employer contributions .....	-	-	-	2,179,214
<b>TOTAL OPERATING REVENUES .....</b>	<b><u>28,311,805</u></b>	<b><u>1,275,928</u></b>	<b><u>29,587,733</u></b>	<b><u>2,179,214</u></b>
<b><u>OPERATING EXPENSES:</u></b>				
Cost of services and administration .....	23,072,922	918,043	23,990,965	-
Depreciation.....	1,653,253	240,744	1,893,997	-
Employee benefits .....	-	-	-	2,037,254
<b>TOTAL OPERATING EXPENSES .....</b>	<b><u>24,726,175</u></b>	<b><u>1,158,787</u></b>	<b><u>25,884,962</u></b>	<b><u>2,037,254</u></b>
<b>OPERATING INCOME (LOSS).....</b>	<b><u>3,585,630</u></b>	<b><u>117,141</u></b>	<b><u>3,702,771</u></b>	<b><u>141,960</u></b>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>				
Investment income.....	9,195	756	9,951	20,932
Interest expense.....	(177,967)	(36,740)	(214,707)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b><u>(168,772)</u></b>	<b><u>(35,984)</u></b>	<b><u>(204,756)</u></b>	<b><u>20,932</u></b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b><u>3,416,858</u></b>	<b><u>81,157</u></b>	<b><u>3,498,015</u></b>	<b><u>162,892</u></b>
<b><u>TRANSFERS:</u></b>				
Transfers out.....	(1,941,449)	(127,791)	(2,069,240)	-
<b>CHANGE IN NET POSITION.....</b>	<b><u>1,475,409</u></b>	<b><u>(46,634)</u></b>	<b><u>1,428,775</u></b>	<b><u>162,892</u></b>
<b>NET POSITION AT BEGINNING OF YEAR.....</b>	<b><u>56,715,530</u></b>	<b><u>1,204,122</u></b>	<b><u>57,919,652</u></b>	<b><u>2,946,089</u></b>
<b>NET POSITION AT END OF YEAR.....</b>	<b><u>\$ 58,190,939</u></b>	<b><u>\$ 1,157,488</u></b>	<b><u>\$ 59,348,427</u></b>	<b><u>\$ 3,108,981</u></b>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers and users.....	\$ 27,650,475	\$ 1,275,928	\$ 28,926,403	\$ -
Receipts from interfund services provided.....	-	-	-	2,179,214
Payments to vendors.....	(20,494,292)	(561,176)	(21,055,468)	(1,953,366)
Payments to employees.....	(2,297,615)	(464,420)	(2,762,035)	-
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>4,858,568</b>	<b>250,332</b>	<b>5,108,900</b>	<b>225,848</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers out.....	(1,941,449)	(127,791)	(2,069,240)	-
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(1,941,449)</b>	<b>(127,791)</b>	<b>(2,069,240)</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from the issuance of bonds and notes.....	1,000,000	500,000	1,500,000	-
Premium from the issuance of bonds.....	84,413	-	84,413	-
Acquisition and construction of capital assets.....	(1,171,035)	(782,250)	(1,953,285)	-
Principal payments on bonds.....	(2,154,166)	(154,000)	(2,308,166)	-
Interest expense.....	(270,861)	(37,355)	(308,216)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(2,511,649)</b>	<b>(473,605)</b>	<b>(2,985,254)</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment income.....	9,195	756	9,951	20,932
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>414,665</b>	<b>(350,308)</b>	<b>64,357</b>	<b>246,780</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>6,836,986</b>	<b>777,037</b>	<b>7,614,023</b>	<b>5,807,200</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 7,251,651</b>	<b>\$ 426,729</b>	<b>\$ 7,678,380</b>	<b>\$ 6,053,980</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>				
Operating income (loss).....	\$ 3,585,630	\$ 117,141	\$ 3,702,771	\$ 141,960
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	1,653,253	240,744	1,893,997	-
Deferred outflows (inflows) related to pensions.....	(578,694)	(42,253)	(620,947)	-
Changes in assets and liabilities:				
Charges for services receivable.....	(661,330)	-	(661,330)	-
Due to other funds.....	-	(50,000)	(50,000)	-
Other assets.....	439	(69,849)	(69,410)	-
Warrants payable.....	(11,620)	(8,750)	(20,370)	7,999
Postemployment benefits.....	30,415	889	31,304	-
Accrued liabilities.....	13,290	(6,880)	6,410	(1,111)
Net pension liability.....	812,786	52,682	865,468	-
Other liabilities.....	-	4,573	4,573	-
Accrued compensated absences.....	14,399	12,035	26,434	-
Workers' compensation.....	-	-	-	77,000
<b>Total adjustments.....</b>	<b>1,272,938</b>	<b>133,191</b>	<b>1,406,129</b>	<b>83,888</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 4,858,568</b>	<b>\$ 250,332</b>	<b>\$ 5,108,900</b>	<b>\$ 225,848</b>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Pension Trust Fund (as of December 31, 2015)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 10,967	\$ 263,846	\$ 2,253,300	\$ -
Investments.....	256,167,885	29,752,544	3,953,035	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	364,404	-	-	658,954
Due from other funds.....	-	-	113,542	-
<b>TOTAL ASSETS.....</b>	<b>256,543,256</b>	<b>30,016,390</b>	<b>6,319,877</b>	<b>658,954</b>
<b>LIABILITIES</b>				
Warrants payable.....	19,841	-	5,907	-
Accrued liabilities.....	-	-	362,298	-
Other liabilities.....	-	-	-	545,412
Due to other funds.....	-	-	-	113,542
<b>TOTAL LIABILITIES.....</b>	<b>19,841</b>	<b>-</b>	<b>368,205</b>	<b>658,954</b>
<b>NET POSITION</b>				
Held in trust for pension benefits, OPEB, and other purposes..	\$ <u>256,523,415</u>	\$ <u>30,016,390</u>	\$ <u>5,951,672</u>	\$ <u>-</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2016

	Pension Trust Fund (as of December 31, 2015)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Contributions:			
Employer.....	\$ 19,232,179	\$ 3,499,199	\$ -
Employee.....	6,197,022	-	-
Private donations.....	-	-	241,388
Total contributions.....	<u>25,429,201</u>	<u>3,499,199</u>	<u>241,388</u>
Net investment income (loss):			
Net change in fair value of investments.....	3,361,958	-	-
Investment income (loss).....	<u>352,962</u>	<u>460,267</u>	<u>310,874</u>
Total investment income (loss).....	3,714,920	460,267	310,874
Less: investment expense.....	<u>(1,980,100)</u>	<u>-</u>	<u>-</u>
Net investment income (loss).....	<u>1,734,820</u>	<u>460,267</u>	<u>310,874</u>
Intergovernmental.....	<u>430,120</u>	<u>-</u>	<u>-</u>
Transfers from other systems.....	<u>980,552</u>	<u>-</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>28,574,693</u>	<u>3,959,466</u>	<u>552,262</u>
<b>DEDUCTIONS:</b>			
Administration.....	413,350	-	-
Transfers to other systems.....	1,521,541	-	-
Retirement benefits and refunds.....	27,953,105	-	-
Educational scholarships.....	<u>-</u>	<u>-</u>	<u>250,170</u>
TOTAL DEDUCTIONS.....	<u>29,887,996</u>	<u>-</u>	<u>250,170</u>
CHANGE IN NET POSITION.....	(1,313,303)	3,959,466	302,092
NET POSITION AT BEGINNING OF YEAR.....	<u>257,836,718</u>	<u>26,056,924</u>	<u>5,649,580</u>
NET POSITION AT END OF YEAR.....	<u>\$ 256,523,415</u>	<u>\$ 30,016,390</u>	<u>\$ 5,951,672</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 (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.

*Component Unit Presented as a Fiduciary Fund* – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of relationship between the Town and the component unit.

The Brookline Contributory Retirement System (System) was established to provide retirement benefits to Town employees, the Brookline Housing Authority employees, and their beneficiaries. The 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 is audited as part of the Town's financial statement audit. More information regarding the Retirement System 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 position and the statement of changes in net position) 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 and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets and deferred outflows of resources, liabilities and deferred inflows of resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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 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 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 *Devotion School renovation fund* is used to account for financial resources for the renovation of the Devotion 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. Fair Value Measurements

The Town reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 for further detail.

## F. 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 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 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.

### ***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 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 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.

### **G. 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.

### **H. Restricted Assets**

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

### **I. Deferred Outflows/Inflows of Resources**

#### ***Government-Wide Financial Statements (Net Position)***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town's reported deferred outflow of resources relate to pensions.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town did not have any items that qualify for reporting in this category.

#### ***Governmental Fund Financial Statements***

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have not been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The Town has recorded unavailable revenue as deferred inflows of resources in the governmental funds balance sheet.

**J. 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 \$60,000 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 year of the purchase.

**K. 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 position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position 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 position 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”.

L. 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 position. 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.

M. Unearned and Unavailable Revenue

Unearned revenue at the government-wide and fund financial statement level represents resources that have been received, but not yet earned.

Unavailable 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. Unavailable revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements. As of June 30, 2016, unavailable revenue consisted of taxes billed not yet received and grant awards related to expenditure driven grants in which the grant requirements have not been met.

N. Net Position and Fund Equity*Government-Wide Financial Statements (Net Position)*

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

Net position has 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.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### *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. Town Meeting is the highest level of decision making authority that can commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“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. The Comptroller has the authority to assign fund balance. Funds are assigned when the Town has an obligation to purchase goods or services from the current years’ appropriation.

“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.

### O. 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 position. 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.

### P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of both the Brookline Contributory Retirement System (BCRS) and the Massachusetts Teachers Retirement System and additions to/deductions from the BCRS's fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### Q. 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.

### R. 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.

### S. 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 year. Actual results could vary from estimates that were used.

#### T. Individual Fund Deficits

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

#### U. Total Column

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

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

##### *Fund Financial Statements*

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

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

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the pension trust fund 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 (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 year-end, the carrying amount of deposits totaled \$89,061,854 and the bank balance totaled \$93,504,114. Of the bank balance, \$860,240 was covered by Federal Depository Insurance, \$86,292,608 was covered by the Depositors Insurance Fund, and \$6,351,266 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Town's cash and cash equivalents consist of \$89,061,854 in deposits and \$11,004,516 in cash equivalents. These cash and cash equivalents are reported in both the primary government and the fiduciary funds. Those amounts totaled \$97,549,224 and \$2,517,146, respectively. See investments below for amounts designated as cash equivalents.

At December 31, 2015, the carrying amount of deposits for the Retirement System totaled \$10,967 and the bank balance totaled \$382,427. The entire bank balance of the System was covered by Federal Depository Insurance.

The Retirement System's cash and cash equivalents consist of \$10,967 in deposits.

### Investments

The Town of Brookline had the following investments, including cash equivalents classified as investments, at June 30, 2016:

Investment Type	Fair Value	Maturity		
		1-5 Years	6-10 Years	Over 10 Years
<u>Debt Securities</u>				
United States Treasury.....	\$ 2,075,806	\$ 1,124,871	\$ 762,959	\$ 187,976
Federal National Mortgage Asso.....	170,697	-	-	170,697
Federal Home Loan Mortgage Corp.....	6,876	-	-	6,876
Bond Mutual Funds.....	1,408,687	1,408,687	-	-
Corporate Bonds.....	395,543	182,887	212,656	-
Total Debt Securities.....	\$ 4,057,609	\$ <u>2,716,445</u>	\$ <u>975,615</u>	\$ <u>365,549</u>
<u>Other Investments</u>				
Alternative Investments.....	2,771,098			
PRIT Investments (Pooled Funds).....	26,981,446			
Equity Securities.....	5,307,926			
Equity Mutual Funds.....	3,578,955			
Money Market Mutual Funds (*).....	786,349			
MMDT (*).....	10,218,167			
Total Investments.....	\$ <u>53,701,550</u>			
(*) designates cash equivalent				
Total investments per above.....	\$ 53,701,550			
Less: cash equivalents.....	<u>(11,004,516)</u>			
Total Investments.....	\$ <u>42,697,034</u>			

The Town's investments are reported in both the primary government and the fiduciary funds. Those amounts total \$8,991,455 and \$33,705,579, respectively.

As of December 31, 2015, the Retirement System had the following investments:

<u>Other Investments</u>	
Equity Mutual Funds.....	\$ 163,222,437
Bond Mutual Funds.....	60,483,127
PRIT Investments (Pooled Funds).....	1,124,851
Alternative Investments-Real Estate.....	<u>31,337,470</u>
 Total Investments.....	 \$ <u>256,167,885</u>

#### 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, \$2,075,806 in U.S. Treasury Securities, \$170,697 in Federal National Mortgage Association, \$6,876 in Federal Home Loan Mortgage Corporation, \$395,543 in Corporate Bonds, and \$5,307,926 in Equity Securities, the Town has custodial credit risk exposure of \$7,956,848 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, 2016 the Town's debt securities were rated as follows:

Rated Debt Investments - Town						
Quality Ratings	United States Treasury	Federal National Mortgage Asso.	Federal Home Loan Mortgage Corp.	Bond Mutual Funds	Corporate Bonds	Total
AAA.....	\$ -	\$ -	\$ -	\$ -	\$ 26,894	\$ 26,894
AA+.....	2,075,806	170,697	6,876	913,108	25,554	3,192,041
AA.....	-	-	-	-	27,337	27,337
AA-.....	-	-	-	-	104,477	104,477
A+.....	-	-	-	-	106,126	106,126
A.....	-	-	-	495,578	53,316	548,894
A-.....	-	-	-	-	51,840	51,840
Fair Value..	\$ 2,075,806	\$ 170,697	\$ 6,876	\$ 1,408,686	\$ 395,544	\$ 4,057,609

#### 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. The System does not have any investments subject to custodial credit risk.

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. All decisions regarding the System's investment policies are voted on by the Retirement Board.

#### 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 0.14 to 24.23 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, 2016, 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, 2015, the Retirement System does not have any investments that exceed the 5% threshold.

Fair Market Value of Investments

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town's mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a tabular format for disclosing the levels within the fair value hierarchy.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of June 30, 2016:

Town	Investment Type	6/30/16	Fair Value Measurements Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value level:</b>					
<u>Debt Securities</u>					
	United States Treasury.....	\$ 2,075,806	\$ 2,075,806	\$ -	\$ -
	Federal National Mortgage Asso.....	170,697	170,697	-	-
	Federal Home Loan Mortgage Corp.....	6,876	6,876	-	-
	Bond Mutual Funds.....	1,408,687	1,408,687	-	-
	Corporate Bonds.....	395,543	-	395,543	-
	Total debt securities.....	4,057,609	3,662,066	395,543	-
<u>Other investments</u>					
	Pooled Alternative Investments.....	2,771,098	-	-	2,771,098
	Equity Securities.....	5,307,926	5,307,926	-	-
	Equity Mutual Funds.....	3,578,955	3,578,955	-	-
	Money Market Mutual Funds.....	786,349	786,349	-	-
	Total other investments.....	12,444,328	9,673,230	-	2,771,098
	Total investments measured at fair value level.....	16,501,937	\$ 13,335,296	\$ 395,543	\$ 2,771,098
<b>Investments measured at the net asset value:</b>					
	PRIT Investments.....	26,981,446			
<b>Investments measured at amortized cost:</b>					
	MMDT.....	10,218,167			
	Total investments.....	\$ 53,701,550			

U.S. government treasuries and government sponsored enterprises, bond mutual funds, equity securities, equity mutual funds, money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices

quoted in active markets for those securities. Corporate bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pooled alternative investments classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

PRIT Investments are valued using the net asset value method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Town does not have the ability to control any of the investment decisions relative to its funds in PRIT.

MMDT investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

### Retirement System

The System significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan's activities, the plan shows greater disaggregation in its disclosures. The plan chooses a tabular format for disclosing the levels within the fair value hierarchy.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has the following recurring fair value measurements as of December 31, 2015:

Retirement System	12/31/15	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value level:</b>				
<u>Debt Securities</u>				
Bond Mutual Funds.....	\$ 60,483,127	\$ 60,483,127	\$ -	\$ -
<u>Other investments</u>				
Equity Mutual Funds.....	163,222,437	163,222,437	-	-
Alternative Investments-Real Estate.....	31,337,470	-	-	31,337,470
Total other investments.....	194,559,907	163,222,437	-	31,337,470
Total investments measured at fair value level:	255,043,034	\$ 223,705,564	\$ -	\$ 31,337,470
<b>Investments measured at the net asset value:</b>				
PRIT Investments.....	1,124,851			
Total investments.....	\$ 256,167,885			

Bond mutual funds and equity mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Alternative investments – Real Estate classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

PRIT Investments are valued using the net asset value (NAV) method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

### NOTE 3 – RECEIVABLES

At June 30, 2016, 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....	\$ 3,119,885	\$ -	\$ 3,119,885
Tax liens.....	2,058,503	-	2,058,503
Motor vehicle and other excise taxes.....	407,481	(322,332)	85,149
User fees.....	102,686	-	102,686
Departmental and other.....	5,698,815	(1,963,864)	3,734,951
Intergovernmental.....	8,446,994	-	8,446,994
Loans.....	28,117	-	28,117
Total.....	<u>\$ 19,862,481</u>	<u>\$ (2,286,196)</u>	<u>\$ 17,576,285</u>

At June 30, 2016, receivables for the water and sewer enterprise fund totaled \$7,127,639. The amount is considered fully collectible.

Governmental funds report *deferred inflows of resources* 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 year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Type:</u>			
Real estate and personal property taxes....	\$ 2,753,903	\$ -	\$ 2,753,903
Tax liens.....	1,851,032	-	1,851,032
Motor vehicle and other excise taxes.....	85,149	-	85,149
User fees.....	102,686	-	102,686
Departmental and other.....	3,699,734	35,217	3,734,951
Intergovernmental.....	2,612,000	4,570,231	7,182,231
<u>Other asset type:</u>			
Due from other funds.....	150,000	-	150,000
Total.....	<u>\$ 11,254,504</u>	<u>\$ 4,605,448</u>	<u>\$ 15,859,952</u>

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, 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.....	4,208,412	4,817,322	-	9,025,734
Total capital assets not being depreciated.....	5,083,285	4,817,322	-	9,900,607
<u>Capital assets being depreciated:</u>				
Land improvements.....	30,896,620	2,913,400	-	33,810,020
Buildings.....	297,681,305	5,627,438	-	303,308,743
Machinery and equipment.....	30,486,379	1,998,763	-	32,485,142
Infrastructure.....	47,125,118	3,691,167	(2,196,035)	48,620,250
Total capital assets being depreciated.....	406,189,422	14,230,768	(2,196,035)	418,224,155
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(13,304,073)	(1,775,100)	-	(15,079,173)
Buildings.....	(120,496,504)	(7,286,885)	-	(127,783,389)
Machinery and equipment.....	(19,529,381)	(2,015,219)	-	(21,544,600)
Infrastructure.....	(23,033,534)	(1,769,556)	2,196,035	(22,607,055)
Total accumulated depreciation.....	(176,363,492)	(12,846,760)	2,196,035	(187,014,217)
Total capital assets being depreciated, net.....	229,825,930	1,384,008	-	231,209,938
Total capital assets, net.....	\$ 234,909,215	\$ 6,201,330	\$ -	\$ 241,110,545
	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.....	2,810,328	-	-	2,810,328
Machinery and equipment.....	2,384,625	203,676	-	2,588,301
Infrastructure.....	76,134,536	1,692,849	-	77,827,385
Total capital assets being depreciated.....	81,530,719	1,896,525	-	83,427,244
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(86,191)	(6,574)	-	(92,765)
Buildings.....	(1,297,918)	(68,049)	-	(1,365,967)
Machinery and equipment.....	(1,616,128)	(207,370)	-	(1,823,498)
Infrastructure.....	(20,190,173)	(1,371,260)	-	(21,561,433)
Total accumulated depreciation.....	(23,190,410)	(1,653,253)	-	(24,843,663)
Total capital assets being depreciated, net.....	\$ 58,340,309	\$ 243,272	\$ -	\$ 58,583,581

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Golf Course Activities:</b>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 1,823,773	\$ 933,002	\$ -	\$ 2,756,775
Buildings.....	2,028,007	-	-	2,028,007
Machinery and equipment.....	143,930	-	-	143,930
Total capital assets being depreciated.....	<u>3,995,710</u>	<u>933,002</u>	<u>-</u>	<u>4,928,712</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(630,995)	(144,721)	-	(775,716)
Buildings.....	(614,727)	(84,454)	-	(699,181)
Machinery and equipment.....	(132,361)	(11,569)	-	(143,930)
Total accumulated depreciation.....	<u>(1,378,083)</u>	<u>(240,744)</u>	<u>-</u>	<u>(1,618,827)</u>
Total capital assets being depreciated, net.....	<u>\$ 2,617,627</u>	<u>\$ 692,258</u>	<u>\$ -</u>	<u>\$ 3,309,885</u>

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

**Governmental Activities:**

General government.....	\$ 1,042,898
Public safety.....	1,215,580
Education.....	5,226,765
Public works.....	4,172,946
Leisure services.....	722,820
Human services.....	465,751

Total depreciation expense - governmental activities..... \$ 12,846,760

**Business-Type Activities:**

Water and Sewer.....	\$ 1,653,253
Golf.....	240,744

Total depreciation expense - business-type activities..... \$ 1,893,997

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2016, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			
	General Fund	Capital Article Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 9,083,000	\$ 163,078	\$ 9,246,078
Nonmajor Governmental Funds.....	4,729,124	-	-	4,729,124
Capital Article Fund.....	500	-	-	500
Water & Sewer Enterprise Fund.....	1,941,449	-	-	1,941,449
Golf Enterprise Fund.....	127,791	-	-	127,791
	<u>\$ 6,798,864</u>	<u>\$ 9,083,000</u>	<u>\$ 163,078</u>	<u>\$ 16,044,942</u>

Transfers represent amounts voted to fund the 2016 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, respectively.

Details related to the short-term debt activity for the year ended June 30, 2016, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2015	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2016
BAN	Golf Course Improvements.....	0.65	03/29/17	\$ -	\$ 500,000	\$ -	\$ 500,000

**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".

The Town issued \$18,735,000 of new general obligation bonds of which \$17,735,000 was recognized in the governmental funds, \$1,000,000 was recognized in the water & sewer enterprise fund.

In order to take advantage of favorable interest rates, the Town issued \$6,075,000 of General Obligation Refunding Bonds on March 29, 2016. \$6,350,000 of general obligation bonds were refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This refunding was undertaken to reduce total debt service payments over the next 12 years by \$733,586 and resulted in an economic gain of \$623,843. At June 30, 2016, approximately \$6,350,000 of governmental bonds outstanding from the refunding is considered defeased.

Details related to the Town's outstanding indebtedness and debt service requirements are as follows:

<b>Governmental Funds</b>							
Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
<i>Inside Debt Limit</i>							
Schools.....	2041	\$ 39,495,877	2.00-5.00	\$ 18,121,000	\$ 11,920,000	\$ 2,026,000	\$ 28,015,000
General Government.....	2031	69,963,968	2.00-5.00	<u>28,280,294</u>	<u>7,625,000</u>	<u>10,032,794</u>	<u>25,872,500</u>
Sub-total.....				<u>46,401,294</u>	<u>19,545,000</u>	<u>12,058,794</u>	<u>53,887,500</u>
<i>Outside Debt Limit</i>							
Schools.....	2032	19,760,000	2.00-4.00	13,555,000	-	1,455,000	12,100,000
General Government.....	2031			<u>-</u>	<u>4,265,000</u>	<u>-</u>	<u>4,265,000</u>
Sub-total.....				<u>13,555,000</u>	<u>4,265,000</u>	<u>1,455,000</u>	<u>16,365,000</u>
Total Governmental Bonds Payable.....				59,956,294	23,810,000	13,513,794	70,252,500
Unamortized Premium on Bonds.....				<u>1,285,369</u>	<u>1,362,097</u>	<u>213,168</u>	<u>2,434,298</u>
Total Governmental Long-Term Debt.....				<u>61,241,663</u>	<u>25,172,097</u>	<u>13,726,962</u>	<u>72,686,798</u>
<b>Enterprise Funds</b>							
<i>Inside Debt Limit</i>							
Golf Course Enterprise Fund....	2035	1,749,000	2.00-4.50	1,149,000	-	154,000	995,000
Water Enterprise Fund.....	2022	7,855,932	2.00-5.00	2,414,706	-	767,206	1,647,500
Sewer Enterprise Fund.....	2026	14,114,900	0.00-5.00	<u>6,756,617</u>	<u>1,000,000</u>	<u>1,386,960</u>	<u>6,369,657</u>
Total Enterprise Bonds Payable.....				10,320,323	1,000,000	2,308,166	9,012,157
Unamortized Premium on Bonds.....				<u>86,854</u>	<u>-</u>	<u>4,092</u>	<u>82,762</u>
Total Enterprise Long-Term Debt.....				<u>10,407,177</u>	<u>1,000,000</u>	<u>2,312,258</u>	<u>9,094,919</u>
Total Long-Term Debt.....				<u>\$ 71,648,840</u>	<u>\$ 26,172,097</u>	<u>\$ 16,039,220</u>	<u>\$ 81,781,717</u>

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

**Governmental funds - Debt Service Payments**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017.....	\$ 7,835,000	\$ 2,632,542	\$ 10,467,542
2018.....	7,372,500	2,436,396	9,808,896
2019.....	7,010,000	2,180,358	9,190,358
2020.....	6,670,000	1,923,057	8,593,057
2021.....	5,165,000	1,649,805	6,814,805
2022.....	5,165,000	1,423,245	6,588,245
2023.....	4,600,000	1,205,943	5,805,943
2024.....	4,105,000	1,014,182	5,119,182
2025.....	3,705,000	852,756	4,557,756
2026.....	2,995,000	699,968	3,694,968
2027.....	2,460,000	564,000	3,024,000
2028.....	2,465,000	445,426	2,910,426
2029.....	1,855,000	347,950	2,202,950
2030.....	1,660,000	294,400	1,954,400
2031.....	1,675,000	231,560	1,906,560
2032.....	960,000	167,562	1,127,562
2033.....	450,000	138,762	588,762
2034.....	460,000	125,262	585,262
2035.....	475,000	111,462	586,462
2036.....	490,000	97,212	587,212
2037.....	505,000	82,512	587,512
2038.....	520,000	67,362	587,362
2039.....	535,000	51,762	586,762
2040.....	550,000	35,712	585,712
2041.....	570,000	18,524	588,524
Totals.....	\$ <u>70,252,500</u>	\$ <u>18,797,714</u>	\$ <u>89,050,214</u>

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

**Enterprise Funds - Debt Service Payments**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017.....	\$ 2,132,960	\$ 278,788	\$ 2,411,748
2018.....	1,743,441	218,750	1,962,191
2019.....	1,395,378	168,018	1,563,396
2020.....	1,265,378	126,457	1,391,835
2021.....	695,000	89,006	784,006
2022.....	460,000	62,706	522,706
2023.....	360,000	45,506	405,506
2024.....	310,000	33,133	343,133
2025.....	210,000	22,732	232,732
2026.....	160,000	15,276	175,276
2027.....	55,000	9,312	64,312
2028.....	60,000	7,532	67,532
2029.....	60,000	5,543	65,543
2030.....	30,000	3,580	33,580
2031.....	30,000	2,474	32,474
2032.....	15,000	1,350	16,350
2033.....	10,000	900	10,900
2034.....	10,000	600	10,600
2035.....	10,000	300	10,300
Totals.....	\$ <u>9,012,157</u>	\$ <u>1,091,963</u>	\$ <u>10,104,120</u>

The Commonwealth has approved school construction assistance to the Town. 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 2016, \$557,000 of such assistance was received for reimbursement. Approximately \$2,975,000 will be received in future years. Of this amount, \$363,000 represents reimbursement of long-term interest costs, and \$2,612,000 represents reimbursement of approved construction costs. Accordingly, a \$2,612,000 intergovernmental receivable and corresponding deferred inflow of resources has been reported in governmental fund financial statements. The deferred inflows of resources have been recognized as revenue in the conversion to the government-wide financial statements.

Beginning in 2005, the Commonwealth 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. Through the end of 2016, the Town has received capital grant proceeds totaling \$1.1 million from the MSBA, which is equal to 35.84% of approved construction costs submitted for reimbursement. The Town anticipates receiving an additional \$790,788 of grant proceeds in 2017. Accordingly, a \$790,788 intergovernmental receivable and corresponding deferred inflow of resources – unavailable revenue has been reported in the governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2016, the Town had the following authorized and unissued debt:

Purpose	Amount
Devotion School.....	\$ 108,400,000
Fire Maintenance Facility & Remodeling.....	4,500,000
Wastewater System Improvements.....	2,000,000
School Building Envelope/Fenestration Repairs.....	2,100,000
Carlton Street Foot Bridge.....	1,245,000
Traffic Circulation, Pedestrian & Bicycle Crossing Imp.....	1,200,000
Town and School Building Roof Repairs.....	1,200,000
Golf Course Improvements.....	1,000,000
Fire Truck Acquisition.....	800,000
Muddy River Project.....	745,000
Recreational Facility Renovations.....	700,000
Golf - Grounds.....	265,000
Pierce Playground Renovation.....	60,000
Sewers.....	<u>265</u>
Total.....	<u>\$ 124,215,265</u>

Changes in Long-term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

**Governmental Funds**

	Balance June 30, 2015	Bonds Issued	Bonds Redeemed	Other Net Increase (Decrease)	Balance June 30, 2016	Current Portion
Long-Term Bonds.....	\$ 59,956,294	\$ 23,810,000	\$ (13,513,794)	\$ -	\$ 70,252,500	\$ 7,835,000
Add: unamortized premium.....	1,285,369	-	-	1,148,929	2,434,298	323,680
Total Long-Term Debt.....	61,241,663	23,810,000	(13,513,794)	1,148,929	72,686,798	8,158,680
Other Postemployment Benefits.....	51,254,226	-	-	4,483,169	55,737,395	-
Workers' Compensation.....	2,860,000	-	-	77,000	2,937,000	234,960
Compensated Absences.....	8,781,518	-	-	(178,420)	8,603,098	6,438,619
Net Pension Liability.....	180,510,554	-	-	35,321,649	215,832,203	-
Landfill Closure.....	4,785,000	-	-	(66,000)	4,719,000	190,000
Total.....	\$ 309,432,961	\$ 23,810,000	\$ (13,513,794)	\$ 40,786,327	\$ 360,515,494	\$ 15,022,259

**Business-Type Activities**

	Balance June 30, 2015	Bonds Issued	Bonds Redeemed	Other Net Increase (Decrease)	Balance June 30, 2016	Current Portion
Long-Term Bonds.....	\$ 10,320,323	\$ 1,000,000	\$ (2,308,166)	\$ -	\$ 9,012,157	\$ 2,132,960
Add: unamortized premium.....	86,854	-	-	(4,092)	82,762	3,737
Total Long-Term Debt.....	10,407,177	1,000,000	(2,308,166)	(4,092)	9,094,919	2,136,697
Other Postemployment Benefits.....	1,608,053	-	-	31,304	1,639,357	-
Compensated Absences.....	409,504	-	-	26,434	435,938	338,198
Net Pension Liability.....	3,982,890	-	-	865,468	4,848,358	-
Total.....	\$ 16,407,624	\$ 1,000,000	\$ (2,308,166)	\$ 919,114	\$ 16,018,572	\$ 2,474,895

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 year end, \$2,937,000 of internal service fund 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:

	General	Devotion School Renovation	Capital Article Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>					
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	\$ -	1,701,420	\$ 1,701,420
Restricted for:					
Housing trust funds.....	-	-	-	3,404,366	3,404,366
Parking meter fund.....	-	-	-	3,773,523	3,773,523
Revolving funds.....	-	-	-	2,573,190	2,573,190
Trust funds.....	-	-	-	5,854	5,854
Federal grant funds.....	-	-	-	468,400	468,400
Gift and grant funds.....	-	-	-	6,036,985	6,036,985
Sale of cemetery lots/ graves.....	-	-	-	488,931	488,931
Sale of municipal property.....	-	-	-	80,000	80,000
Non-expendable permanent funds.....	-	-	-	58,590	58,590
Cemetery perpetual care.....	-	-	-	128,876	128,876
Library permanent fund.....	-	-	-	5,180,018	5,180,018
Other permanent funds.....	-	-	-	587,850	587,850
Committed to:					
Revenue financed capital article major fund.....	-	8,249,953	10,367,481	-	18,617,434
Debt financed school capital projects.....	-	-	-	764,131	764,131
Debt financed town capital projects.....	-	-	-	7,660,373	7,660,373
Assigned to:					
General government.....	153,319	-	-	-	153,319
Public safety.....	763,380	-	-	-	763,380
Education.....	754,581	-	-	-	754,581
Public works.....	431,571	-	-	-	431,571
Human services.....	14,072	-	-	-	14,072
Leisure services.....	63,264	-	-	-	63,264
Employee benefits.....	7,419	-	-	-	7,419
Free cash used for subsequent year's appropriations.....	5,311,538	-	-	-	5,311,538
Unassigned.....	21,345,882	-	-	-	21,345,882
<b>TOTAL FUND BALANCES.....</b>	<b>\$ 28,845,026</b>	<b>\$ 8,249,953</b>	<b>\$ 10,367,481</b>	<b>\$ 32,912,507</b>	<b>\$ 80,374,967</b>

**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 year-end, the balance of the General Stabilization Fund is \$6,204,334 and is reported as unassigned fund balance within the General Fund. The fund earned \$52,250 of investment income during 2016. 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.

*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, 2016, the amount of the liability for workers’ compensation claims totaled \$2,937,000. Changes in the reported liability since July 1, 2014, are as follows:

	Balance at Beginning of Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Year-End
Year 2016.....	\$ 2,860,000	\$	1,541,716	\$	(1,464,716)	\$	2,937,000
Year 2015.....	2,070,000	\$	2,185,243	\$	(1,395,243)	\$	2,860,000

**NOTE 11 - PENSION PLAN**

*Plan Descriptions*

The Town is a member of the Brookline Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 2 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension trust fund in the fiduciary fund financial statements.

The Town is a member of the Massachusetts Teachers’ Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor

and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth’s reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

*Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Town to the MTRS. Therefore, the Town is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer’s covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2015. The Town’s portion of the collective pension expense, contributed by the Commonwealth, of \$10,664,082 is reported in the general fund as intergovernmental revenue and pension benefits in the current fiscal year. The portion of the Commonwealth’s collective net pension liability associated with the Town is \$213,814,290 as of the measurement date.

*Benefits Provided*

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service. There were no reported changes in pension benefits as of December 31, 2015.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

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 Board and are borne by the System.

At December 31, 2015, the System membership consists of the following:

Active members.....	1,318
Inactive members.....	1,596
Retirees and beneficiaries currently receiving benefits.....	<u>898</u>
Total.....	<u><u>3,812</u></u>

*Contributions*

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the BCRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2015, was \$19,232,179, 28.46% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The Town's proportionate share of the required contribution was \$18,614,041 which equaled its actual contribution. The Town made an additional contribution of \$25,976.

*Pension Liabilities*

The components of the net pension liability of the participating member units at June 30, 2016 were as follows:

Total pension liability.....	\$ 484,224,410
The pension plan's fiduciary net position.....	<u>(256,523,415)</u>
The net pension liability.....	<u>\$ 227,700,995</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	52.98%

At June 30, 2016, the Town reported a liability of \$220,680,561 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2015, the Town's proportion was 96.92%, and at December 31, 2014, the Town's proportion was 96.53%.

*Pension Expense*

For the year ended June 30, 2016, the Town recognized pension expense of \$7,965,620. At June 30, 2016, the Town reported deferred outflows of resources related to pensions of \$30,633,383, from the net difference between projected and actual investment earnings on pension plan investments, the difference between expected and actual experience, changes of assumptions, changes in proportion and differences between employer contributions and changes in the proportionate share of contributions.

The deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017.....	\$ 9,064,605
2018.....	9,064,605
2019.....	9,064,605
2020.....	<u>3,439,568</u>
Total.....	<u>\$ 30,633,383</u>

*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 expenditures for 2016 totaled approximately \$111,000.

*Actuarial Assumptions* - The total pension liability in the January 1, 2016, actuarial valuation was determined using the following actuarial assumptions:

Valuation date.....	January 1, 2016
Actuarial cost method.....	Entry Age Normal Actuarial Cost Method
Amortization method - UAAL.....	Appropriation increasing 7.85% per year
Amortization method - 2003 ERI.....	Increasing at 4.50% to reduce the 2003 ERI Actuarial Accrued Liability to zero on or before June 30, 2030
Remaining amortization period.....	As of July 1, 2015, 15 years
Asset valuation method.....	The difference between the expected return and the actual investment return on a market value basis is recognized over a five year period. Asset value is adjusted, if necessary to be within 10% of the market value
Investment rate of return.....	7.40%
Discount rate.....	7.40%
Inflation rate.....	4.50%
Projected salary increases.....	4.50% for Groups 1 and 2, 4.75% for Group 4
Cost of living adjustments.....	3.0% of first \$13,000 of the annual retirement allowance.
Mortality rates.....	RP-2000 Employee Mortality Table projected generationally from 2009 with Scale BB2D for pre-retirement mortality and the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 with Scale BB2D for post-retirement mortality. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table projected generationally from 2015 using Scale BB2D.

#### *Investment policy*

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2016 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Cash.....	1.11%	0.00%
Domestic equity.....	6.49%	24.0%
International developed markets equity.....	7.16%	21.0%
International emerging markets equity.....	9.46%	5.00%
Core fixed income.....	1.68%	14.0%
High-yield fixed income.....	4.76%	6.00%
Real estate.....	4.37%	10.0%
Commodities.....	4.13%	3.00%
Hedge fund, GTAA, Risk parity.....	3.60%	7.00%
Private equity.....	11.04%	10.0%
Total.....		<u>100.0%</u>

*Rate of return*

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.43%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Discount rate*

The discount rate used to measure the total pension liability was 7.40%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability, calculated using the discount rate of 7.40%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40%) or 1-percentage-point higher (8.40%) than the current rate:

	1% Decrease (6.40%)	Current Discount (7.40%)	1% Increase (8.40%)
The Town's proportionate share of the net pension liability.....	\$ <u>272,517,653</u>	\$ <u>220,680,561</u>	\$ <u>176,977,550</u>
Total net liability.....	\$ <u>281,187,162</u>	\$ <u>227,700,995</u>	\$ <u>182,607,675</u>

**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 (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 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 2016, the Town contributes 83% 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 2016, the Town contributed \$14.4 million to the plan.

*Annual OPEB Cost and Net OPEB Obligation* - The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for 2016:

Annual required contribution.....	\$	17,847,987
Interest on existing net OPEB obligation.....		3,700,360
Adjustments to annual required contribution.....		<u>(2,671,288)</u>
Annual OPEB cost (expense).....		18,877,059
Contributions made.....		<u>(14,362,586)</u>
Increase/Decrease in net OPEB obligation.....		4,514,473
Net OPEB obligation - beginning of year.....		<u>52,862,279</u>
Net OPEB obligation - end of year.....	\$	<u><u>57,376,752</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/16	\$ 18,877,059	76.1%	\$ 57,376,752
6/30/15	18,055,248	73.4%	52,862,279
6/30/14	17,909,220	78.1%	48,063,557

*Funded Status and Funding Progress* - As of June 30, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$220.7 million, of which the Town has funded approximately \$22.4. The covered payroll (annual payroll of active employees covered by the plan) was \$142.2 million, and the ratio of the UAAL to the covered payroll was 139.51%.

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, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.00 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 6.5 percent for one year, reduced by 0.50 percent to 6.0 percent for the next 8 years, then reduced again by 0.50 percent to 5.5 percent for one year and decreased to an ultimate rate of 5.0, thereafter. 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, 2016, was 30 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 \$4,719,000 as the estimate of the rear landfill closure liability at June 30, 2016. 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, 2016 the outstanding loan balance was \$150,000.

On August 7, 2012, the General Fund issued an interest free note in the amount of \$500,000 to Putterham Meadows Golf Club Enterprise Fund for the construction of a maintenance shed. The note is payable at \$25,000 per year, beginning in 2015. At June 30, 2016 the outstanding loan balance was \$425,000.

**NOTE 15 - COMMITMENTS**

The Town has entered into a long-term contract with Casella Waste Management of Massachusetts, 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 2016 price was \$70 per ton and the 2017 price is \$72 per ton. The contract expires on June 30, 2020.

The Town entered into an agreement with Waste Management of Massachusetts, Inc. to provide single stream recycling for the Town. The 2016 cost was \$1,124,000 for collection plus \$75 per ton processing fee minus the Average Commodity Rate (ACR) which was \$56 per ton for most of the year. The 2017 cost is currently \$1,149,290 for collection plus \$75 per ton processing minus the ACR which currently is \$63 per ton. The contract expires on June 30, 2020.

The School Department has entered into an agreement with Eastern Bus Company, Inc. to provide for regular transportation. The 2016 cost to the Town was \$233,500 and the expected cost for 2017 is \$280,800. The contract expires on August 31, 2018 and may be extended annually.

The School Department has entered into an agreement with Eastern Bus Company, Inc. to provide for additional regular transportation to Upper Devotion School at Old Lincoln School during construction that is above the normal services. The 2016 cost to the Town was \$202,500 charged to the operating budget for one year. The expected cost for 2017 is \$453,600 which is to be funded from the building project until the school opens. The contract expires on August 31, 2018 and may be extended annually.

The School Department has entered into an agreement with Eastern Bus Company, Inc. to provide for METCO transportation. The 2016 cost to the Town was \$362,000 and the expected cost for 2017 is \$373,000. The contract expires on August 31, 2018 and may be extended annually.

The School Department has also entered into an agreement with Y.C.N. Transportation, Inc. to provide transportation for its special needs students. The 2016 cost to the Town was \$1,509,000 and the expected cost for 2017 is \$1,554,000. The contract expires on August 31, 2018 and may be extended annually.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$124.2 million for construction of the Devotion School, various other School and Town building repairs, various sewer improvements, renovations to the Carlton Street Foot Bridge, and various other building and construction (roadway) 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 Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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, 2016.

**NOTE 17 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 7, 2016, which is the date the financial statements were available to be issued.

**NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2016, the following GASB pronouncements were implemented:

- GASB Statement #72, *Fair Value Measurement and Application*. Notes to the basic financial statements were changed to provide additional disclosure on fair value measurement.
- GASB Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.
- GASB Statement #79, *Certain External Investment Pools and Pool Participants*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which is required to be implemented in 2017.
- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.

- The GASB issued Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*, which is required to be implemented in 2018.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

***Required Supplementary Information***

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

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			
	(A) Amounts Carried forward From Prior Year	(B) Current Year Initial Budget	(A+B) Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 193,084,196	\$ 193,084,196	\$ 193,084,196
Motor vehicle and other excise taxes.....	-	5,350,000	5,350,000	5,350,000
Hotel/motel tax.....	-	1,450,000	1,450,000	1,450,000
Local meals tax.....	-	1,025,000	1,025,000	1,025,000
Charges for services.....	-	4,834,250	4,834,250	4,824,500
Penalties and interest on taxes.....	-	488,000	488,000	488,000
Payments in lieu of taxes.....	-	1,335,000	1,335,000	1,335,000
Licenses and permits.....	-	3,268,974	3,268,974	3,264,474
Fines and forfeitures.....	-	4,327,000	4,327,000	4,302,000
Intergovernmental.....	-	18,745,855	18,745,855	18,745,855
Departmental and other.....	-	1,315,460	1,315,460	1,353,460
Investment income.....	-	225,000	225,000	225,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>235,448,735</b>	<b>235,448,735</b>	<b>235,447,485</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	230,650	8,796,795	9,027,445	12,414,449
Public safety.....	474,146	36,814,604	37,288,750	37,647,979
Education.....	791,448	96,290,380	97,081,828	96,707,542
Public works.....	407,437	14,103,923	14,511,360	15,563,116
Human services.....	15,127	2,531,934	2,547,061	2,647,578
Leisure services.....	51,621	4,907,202	4,958,823	5,111,178
Pension benefits.....	-	18,707,021	18,707,021	18,707,021
Employee benefits.....	4,337	39,927,720	39,932,057	35,441,145
State and county charges.....	-	6,323,012	6,323,012	6,319,715
Debt service:				
Principal.....	-	7,158,794	7,158,794	7,158,794
Interest.....	-	2,272,516	2,272,516	2,272,516
<b>TOTAL EXPENDITURES.....</b>	<b>1,974,766</b>	<b>237,833,901</b>	<b>239,808,667</b>	<b>239,991,033</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(1,974,766)</b>	<b>(2,385,166)</b>	<b>(4,359,932)</b>	<b>(4,543,548)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Premium from issuance of bonds, net of expenditures.....	-	-	-	-
Transfers in.....	-	6,798,364	6,798,364	6,798,364
Transfers out.....	-	(9,246,078)	(9,246,078)	(9,246,078)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(2,447,714)</b>	<b>(2,447,714)</b>	<b>(2,447,714)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(1,974,766)</b>	<b>(4,832,880)</b>	<b>(6,807,646)</b>	<b>(6,991,262)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>21,960,276</b>	<b>21,960,276</b>	<b>21,960,276</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (1,974,766)</b>	<b>\$ 17,127,396</b>	<b>\$ 15,152,630</b>	<b>\$ 14,969,014</b>

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 194,425,407	\$ -	\$ 1,341,211
6,360,901	-	1,010,901
1,587,568	-	137,568
1,125,291	-	100,291
5,395,221	-	570,721
499,590	-	11,590
1,042,912	-	(292,088)
5,694,293	-	2,429,819
4,146,004	-	(155,996)
19,053,808	-	307,953
1,652,830	-	299,370
210,123	-	(14,877)
<u>241,193,948</u>	<u>-</u>	<u>5,746,463</u>
11,089,960	153,319	1,171,170
36,522,976	763,380	361,623
95,715,553	754,581	237,408
14,870,354	431,571	261,191
2,605,611	14,072	27,895
4,969,813	63,264	78,101
18,724,794	-	(17,773)
34,511,940	7,419	921,786
6,283,848	-	35,867
7,163,794	-	(5,000)
2,064,939	-	207,577
<u>234,523,582</u>	<u>2,187,606</u>	<u>3,279,845</u>
<u>6,670,366</u>	<u>(2,187,606)</u>	<u>9,026,308</u>
1,362,097	-	1,362,097
6,798,864	-	500
(9,246,078)	-	-
<u>(1,085,117)</u>	<u>-</u>	<u>1,362,597</u>
5,585,249	(2,187,606)	10,388,905
<u>21,960,276</u>	<u>-</u>	<u>-</u>
<u>\$ 27,545,525</u>	<u>\$ (2,187,606)</u>	<u>\$ 10,388,905</u>

# ***Pension Plan Schedules – Retirement System***

The Pension Plan's Schedule of Changes in the Net Pension Liability presents multi-year trend information on the net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information on the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
AND RELATED RATIOS  
BROOKLINE CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2015	December 31, 2014
<b>Total pension liability:</b>		
Service cost.....	\$ 9,579,238	\$ 9,255,303
Interest.....	33,783,255	32,675,994
Changes in benefit terms.....		-
Differences between expected and actual experience.....	1,204,511	-
Changes in assumptions.....	18,752,117	-
Benefit payments, including refunds of employee contributions.....	<u>(28,063,973)</u>	<u>(27,308,052)</u>
Net change in total pension liability.....	35,255,148	14,623,245
Total pension liability, beginning.....	<u>448,969,263</u>	<u>434,346,018</u>
Total pension liability, ending <b>(a)</b> .....	<u>\$ 484,224,411</u>	<u>\$ 448,969,263</u>
<b>Plan fiduciary net position:</b>		
Member contributions.....	\$ 19,232,179	\$ 6,233,795
Employer contributions.....	6,197,022	18,432,347
Pension contributions from federal grants.....	-	-
Net investment income (loss).....	1,734,820	14,475,566
Retirement benefits and refunds.....	(28,063,973)	(27,308,052)
Administrative expenses.....	(413,350)	(416,818)
Military Service Fund Contribution.....	<u>-</u>	<u>-</u>
Net increase (decrease) in fiduciary net position.....	(1,313,302)	11,416,838
Fiduciary net position at beginning of year.....	<u>257,836,718</u>	<u>246,419,880</u>
Fiduciary net position at end of year <b>(b)</b> .....	<u>\$ 256,523,416</u>	<u>\$ 257,836,718</u>
<b>Net pension liability - ending (a) - (b)</b> .....	<u>\$ 227,700,995</u>	<u>\$ 191,132,545</u>
Plan fiduciary net position as a percentage of the total pension liability.....	52.98%	57.43%
Covered-employee payroll.....	\$ 67,587,462	\$ 64,829,168
Net pension liability as a percentage of covered-employee payroll.....	336.90%	294.82%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for  
which information is available.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**  
**BROOKLINE CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2015	December 31, 2014
Actuarially determined contribution.....	\$ 19,206,203	\$ 18,204,932
Contributions in relation to the actuarially determined contribution.....	<u>19,232,179</u>	<u>18,432,347</u>
Contribution deficiency (excess).....	<u>\$ (25,976)</u>	<u>\$ (227,415)</u>
Covered-employee payroll (a).....	\$ 67,587,462	\$ 64,829,168
Contributions as a percentage of covered- employee payroll.....	28.46%	28.08%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

(a) Covered employee payroll for 2014 has been restated to reflect  
a change in the definition of covered payroll under  
GASB Statement #82.

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURN**  
**BROOKLINE CONTRIBUTORY RETIREMENT SYSTEM**

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	December 31, 2015	December 31, 2014
Annual money-weighted rate of return, net of investment expense.....	1.43%	7.01%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

The annual money-weighted rate of return has been calculated by  
the Public Employee Retirement Administration Commission (PERAC).

See notes to required supplementary information.

# ***Pension Plan Schedules - Town***

The Schedule of the Town's Proportionate Share of the Net Pension Liability presents multi-year trend information on the Town's net pension liability and related ratios.

The Schedule of Town's Contributions presents multi-year trend information on the Town's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Town along with related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
BROOKLINE CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2015	December 31, 2014
Town's proportion of the net pension liability (asset).....	96.92%	96.53%
Town's proportionate share of the net pension liability (asset).....	\$ 220,680,561	\$ 184,493,444
Town's covered employee payroll (a).....	\$ 65,389,850	\$ 62,892,101
Net pension liability as a percentage of Town's covered-employee payroll.....	337.48%	293.35%
Plan fiduciary net position as a percentage of the total pension liability.....	52.98%	57.43%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

(a) Covered employee payroll for 2014 has been restated to reflect a change in the definition of covered payroll under GASB Statement #82.

See notes to required supplementary information.

**SCHEDULE OF TOWN CONTRIBUTIONS**  
**BROOKLINE CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2015	December 31, 2014
Actuarially determined contribution.....	\$ 18,614,041	\$ 17,572,573
Contributions in relation to the actuarially determined contribution.....	<u>18,640,017</u>	<u>17,799,988</u>
Contribution deficiency (excess).....	\$ <u>(25,976)</u>	\$ <u>(227,415)</u>
Town's Covered-employee payroll (a).....	\$ 65,389,850	\$ 62,892,101
Contributions as a percentage of Town covered- employee payroll.....	28.51%	27.94%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

(a) Covered employee payroll for 2014 has been restated to reflect  
a change in the definition of covered payroll under  
GASB Statement #82.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS  
OF THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

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The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary

Fiscal Year	Commonwealth's 100% Share of the Net Pension Liability Associated with the Town	Town's Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2016.....	\$ 213,814,290	\$ 10,664,082	55.38%
2015.....	161,142,974	9,502,310	61.64%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

# ***Other Postemployment Benefit Plan Schedules***

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

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

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

JUNE 30, 2016

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)
6/30/2014	\$ 22,373,501	\$ 220,718,530	\$ 198,345,029	10%	\$ 142,177,301	139.51%
6/30/2012	12,766,296	202,733,897	189,967,601	6%	128,628,216	147.69%
6/30/2010	7,355,050	215,241,642	207,886,592	3%	124,608,849	166.83%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2016	\$ 17,847,987	\$ 14,362,586	80%
2015	17,119,593	13,256,526	77%
2014	17,007,193	13,990,280	82%
2013	16,290,766	12,278,875	75%
2012	15,558,958	11,655,515	75%
2011	21,473,717	10,522,409	49%

See notes to required supplementary information.

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

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Actuarial Methods and Assumptions:

Valuation date.....	June 30, 2014
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.0%, open
Remaining amortization period.....	30 years, open
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	7.00%, blended rate, pay-as-you-go scenario
Inflation.....	4.00%
Medical/drug cost trend rate.....	6.5% for 1 year then 6.0% for 8 years, 5.5% for 1 year decreasing by 0.50% for 1 year to an ultimate level of 5.0% per year.

Plan Membership:

Current retirees, beneficiaries, and dependents...	1,706
Current active members.....	<u>1,310</u>
Total.....	<u><u>3,016</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 year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent 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 2016 approved budget, including amounts carried forward from the prior years authorized approximately \$249.1 in appropriations and other amounts to be raised. During 2016, Town Meeting approved appropriation increases totaling \$182 thousand.

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 2016 the Town used \$5.0 million of free cash and overlay surplus 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 year ended June 30, 2016, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ 5,585,249
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	52,250
<u>Basis of accounting differences:</u>	
Recognition of expenditures on modified accrual basis.....	(71,490)
Net change in recording 60-day receipts accrual.....	(429,984)
Tax refunds payable.....	(841,000)
Recognition of revenue for on-behalf payments.....	10,664,000
Recognition of expenditures for on-behalf payments.....	<u>(10,664,000)</u>
Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	<u>\$ 4,295,025</u>

**C. Appropriation Deficits**

During 2016, expenditures exceeded the budgeted appropriation for pension benefits related to the non-contributory pensions and debt service principal. These deficits will be funded through tax levy in 2016.

**NOTE B – PENSION PLAN*****Brookline Contributory Retirement System Pension Plan Schedules*****A. Schedule of Changes in the Net Pension Liability and Related Ratios**

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the systems total pension liability, changes in the systems net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

At June 30, 2016, the Town reported deferred outflows of resources related to pensions of \$30,633,383, from the net difference between projected and actual investment earnings on pension plan investments, the difference between expected and actual experience, changes of assumptions, changes in proportion and differences between employer contributions and changes in the proportionate share of contributions.

**B. Schedule of Contributions**

Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule,

and additional appropriations in accordance with adopted early retirement incentive programs. The total appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The pension fund appropriations are allocated amongst employers based on covered payroll.

### C. Schedule of Investment Return

The money weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

### ***Pension Plan Schedules - Town***

#### A. Schedule of the Town's Proportionate Share of the Net Pension Liability

The Schedule of the Town's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

#### B. Schedule of Town's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The Town's appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The Town's appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual Town contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on covered payroll.

#### C. Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

#### D. Changes in Assumptions

- The investment return assumption was lowered from 7.60% to 7.40%.
- The mortality assumption for non-disabled retirees was changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2010 using Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2009 using Scale BB2D.
- The mortality assumption for employees was changed from the RP-2000 Employee Mortality Table projected generationally from 2010 using Scale AA to the RP-2000 Employee Mortality Table projected generationally from 2009 using Scale BB2D.

- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward two years projected generationally from 2010 using Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D
- The administrative expense assumption was increased from \$415,000 for calendar 2014 to \$430,000 for calendar 2016.

#### E. Changes in Plan Provisions

None

#### **NOTE C – 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 10%. 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.