

TOWN OF BROOKLINE, MASSACHUSETTS

**REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2013

TOWN OF BROOKLINE, MASSACHUSETTS

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JUNE 30, 2013

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TOWN of BROOKLINE

Massachusetts

BOARD OF SELECTMEN

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Letter of Transmittal

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

State and Federal regulations require the Town of Brookline to publish at the end of each fiscal year a complete set of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) of the United States of America that are audited in accordance with Generally Accepted Auditing Standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Report on the Examination of the Basic Financial Statements of the Town of Brookline, Massachusetts, for the fiscal year ending June 30, 2013 for your review.

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

The Town of Brookline's financial statements have been audited by Powers & Sullivan LLC, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Town of Brookline for the fiscal year ended June 30, 2013, 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, 2013 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Brookline was part of a broader, federally mandated "Single Audit" designed to meet the particular needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of

the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Brookline's separately issued Reports on Federal Award Programs, also known as the Single Audit Report.

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

Profile of the Government

The Town of Brookline was founded in 1630 and incorporated in 1705. It is located in Norfolk County and borders Boston to the east, north and south, and Newton to the west. It is approximately 6.6 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 7,300 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 and those are then implemented by the Board of Selectmen. A Town Moderator is elected every three years to preside over the proceedings of Town Meeting. Day-to-day administrative authority is vested in the Town Administrator, who is appointed by the Board of Selectmen. The Town Administrator is the chief operating officer and is responsible for the supervision and the administration of all departments except for the School Department, Library, and Town Clerk's Office. The Superintendent of Schools is the chief operating officer for the Brookline Public Schools and is responsible for the supervision and administration of all School operations.

A nine person elected School Committee is responsible for establishing policy for all local school affairs. There is also a nine member elected Board of Library Trustees. A three person Board of Assessors, who are appointed by the Board of Selectmen, are responsible for the assessment of local property taxes. A five member Retirement Board services employees and retirees in all departments, except professional employees of the School

Department who are covered by the Massachusetts Teachers Retirement System, for retirement matters and consists of an ex-officio member, two members elected by active and retired members of the Retirement System, one member appointed by the Selectmen and a fifth member chosen by the other four Board members. A seven member Retiree Health Committee is responsible for the investment of Other Postemployment Benefits (OPEB's) assets. The Committee is made up of the Retirement Board plus two additional members appointed by the Board of Selectmen.

There are a number of other boards and commissions that play a key role in Town affairs, 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, review and make 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 with appointment not restricted to the ranks of appointing bodies. The Board of Selectmen, the Advisory Committee and the School Committee each appoint one member and the Town Moderator appoints three members. Current voting members include Nancy Daly (selectmen appointee and chair), Lee Selwyn (Advisory Committee), Ben Chang (School Committee), James Littleton, Gregory Grobstein and Peter Finnerty (Moderator's Appointees). In addition to the six voting members, the Director of Finance (Stephen Cirillo), the Comptroller (Michael DiPietro), the Superintendent of Schools or his/her designee (Peter Rowe), and the Town Administrator or his/her designee (Sean Cronin) serve as nonvoting members of the Committee. The Audit Committee serves as advisor to the Board of Selectmen with respect to the Town's financial condition, financial management systems, and controls and annual audit. In addition, the Committee shall report to Town Meeting as the Committee sees fit on matters within the scope of Town Meeting's concerns. Specific duties shall include, but are not limited to, the following:

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

Financial and Management Practices

The Town annually prepares and updates a five-year Financial Forecast, a six-year Capital Improvement Program (CIP), and an annual Operating Budget. These documents are presented in the Annual Financial Plan, which is produced by the Town Administrator's Office in conjunction with the Finance Department, and reviewed by the Board of Selectmen and Advisory (Finance) Committee. Both the 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 “Financial Report Center” 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 the Fiscal Policy Review Committee in both 2004 and 2011.

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

The six-year CIP, preliminarily submitted in November 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 level of 7.5%, the annual plan allows decision makers and voters the opportunity to regularly analyze and decide upon priority project funding. After inclusion in the Town Administrator's financial plan, the proposed CIP is reviewed by 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 source and use recommendations for all major funds; details departmental missions, goals, objectives and annual work plans; and details performance measurement and financial management criteria for each budget cycle. The financial plan has again been recognized by the GFOA for excellence in budget presentation. The budget maintains consistency with the Selectmen's financial management standards and policies. The budget funding sources include the General Fund, comprised of revenues including property tax, auto, meals, and hotel taxes, user fee receipts, State Aid, investment income and miscellaneous program income; enterprise funds for the water and sewer 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	2016
Superintendent of Schools	William Lupini	Appointed - 3 years	2015
Deputy Town Administrator	Sean Cronin	Appointed - 1 year	2014
Assistant Town Administrator	Melissa Goff	Appointed - 1 year	2014
Finance Director and Treasurer	Stephen Cirillo	Appointed - 1 year	2014
Town Comptroller	Michael F. DiPietro	Appointed - 1 year	2014
Town Clerk	Patrick J. Ward	Elected - 3 years	2015
Town Counsel	VACANT	Appointed - 3 years	

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 77% of general fund revenues are financed by the annual tax on property. The remaining revenues come from locally derived receipts (approximately 10%), State Aid (approximately 7%), transfers from other non-general funds (approximately 3%), and Free Cash (approximately 3%).

Residential properties comprise 90.5% of the full and fair value of the property in Brookline and they are responsible for 83.6% of the taxes. The Town has been adopting the tax classification authorization that permits it to set dual tax rates. The current tax rates are:

Residential	\$ 11.65 per thousand of property value
Commercial	\$ 18.97 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 \$15.5 billion) has increased more than 48% over the past decade, reflecting strong development and real estate appreciation. The Town's tax base is the fifth largest in Massachusetts. Building permit activity continues at a strong pace, having averaged \$2.4 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 \$47,105 according to the 2010 census.

Long-term Financial Planning

The Town continues to manage its financial affairs in a prudent manner. Throughout all of the changes in the economy, increases in expenses and decreased State Aid, the Town has maintained its Aaa bond rating. It has done so by incorporating long-range planning tools such as the five-year Financial Forecast and the six-year CIP; establishing rainy day accounts and budgeting stabilization reserves; prioritizing spending plans and identifying 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

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

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

- in FY 2005, consolidated plans and saved \$1.2 million on an annualized basis.
- in FY 2008, plan design changes were implemented that resulted in an annualized decrease of more than \$1 million in the health insurance budget.
- effective July 1, 2010 (FY 2011), the Town and its unions agreed to enter into the Group Insurance Commission (GIC), the state agency that provides life, health, disability and dental and vision services to more than 300,000 state employees, retirees and their dependents. This action enabled the Town to reduce its group health budget from what was expected to be \$25.8 million to \$20.2 million, a savings of \$5.6 million. It also reduced premium withholdings for employees.

Adding to the success story, since moving to the GIC, annual premium increases have been well below the levels realized prior to the move. The 4.4% increase in FY 2012, the 2.2% increase in FY 2013, and the 3.5% increase in FY 2014 were the lowest levels of premium increase since FY 2002 / FY 2003.

Healthcare insurance is provided during the working life of employees and in their retirement. The annual cost of group healthcare insurance referred to in the preceding paragraph represents the premiums paid for a particular year for both working and retired employees and eligible dependents. The accompanying basic financial statements, prepared in accordance with GAAP, reflect additions, costs, liabilities and disclosures related to the healthcare obligation the Town has to its working and retired employees and their dependents, and will have to its working employees in their retirement years. Financial accounting and disclosure for healthcare provided to employees in retirement is established by GAAP for Other Postemployment Benefits, and is referred to herein by terms including OPEB, postemployment, and post-retirement. 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 2014. In response, the Town approved additional funding in FY 2013 to offset the increase in the following year. Lastly, the FY 2014 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 quickly.

The most recent actuary, for the year ending December 31, 2011, included the following changes to the financial assumptions:

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

During the first decade of the 21st 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, through its CIP, funding from the American Recovery and Reinvestment Act (ARRA), and programs

with local utilities, has invested in energy efficiency programs and technologies. Savings from these investments are being realized, most notably in Town Hall, where consumption has been cut in half. Lastly, the Town continues to replace aging vehicles with hybrids or other fuel-efficient vehicles.

Special education (SPED) and enrollment growth continue to place stress on the School budget. SPED has been growing by approximately \$700,000 per year and now consumes approximately 25% of the School budget. Enrollment in the elementary schools has resulted in cost pressures not only in the School's operating budget, but also on the CIP, as numerous school facility projects are being planned for (see the CIP section below). Over the past nine years, total K-8 enrollment has grown by more than 1,300 students (34%); in just the past three years, there has been an increase of more than 570 students (12%). Based upon available birth data and other demographic trends, this growth pattern is expected to continue for at least the next four years. This will result in total enrollment growth of approximately 1,600 students (41%) during the 12-year (FY 2005-FY 2017) period. In 2005, the K-8 elementary schools operated with 3,888 students in 196 homerooms. In FY 2014, they are teaching 5,222 students in 247 homerooms, an increase of 1,336 students (34%) and 51 homerooms (35%).

In order to create the classroom space necessary to accommodate this enrollment level, both larger-scale renovation projects and smaller-scale space conversion projects have been undertaken. The Runkle School was completely renovated and added onto while the Heath School recently completed an addition project. Within each of the other elementary schools, spaces intended for non-classroom purposes have been converted into regular classrooms. All of these projects have been funded via the CIP. This has enabled the Schools to accommodate the children in each of the K-8 schools, but some of the spaces that have been created are less than ideal. In the next few years, the buildings will reach their capacity. Therefore, more significant work is required.

There is a major renovation/addition project planned for at the Town's largest elementary school (Devotion School) and planning is underway for space needs at the High School, as the larger classes currently in the elementary schools will eventually replace the current smaller classes in the High School, resulting in a space issue at that facility. The joint committee of the Selectmen and School Committee that was convened to study the space issue (the B-Space Committee) recently submitted their recommendations, which includes a significant addition to the Driscoll School in addition to the projects at Devotion and the High School. The enrollment issue also impacts the operating budget side: with new classrooms comes the need for new teachers, supplies, and support services. This budget stress will continue over the next few years. Therefore, the Board of Selectmen has appointed an Override Study Committee to further study these matters.

On the revenue side, property taxes comprise approximately three-quarters of the Town's General Fund revenue. The Town continues to levy the maximum allowable level of property taxes under Proposition 2 ½, leaving little "Excess Capacity". "New Growth" (property tax growth from new construction, renovations, etc.) has augmented the annual 2.5% growth in the levy, playing a large role in the Town's ability to maintain service levels. Over the past five years, New Growth has averaged \$1.86 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 (Cherry Sheet) and Local Receipts. In FY 2003 and FY 2004, local aid was cut by close to \$3 million. In FY 2010, it was cut \$3.1 million and then by another \$700,000 in FY 2011 and \$413,000 in FY 2012. Between FY 2003 – FY 2012, state aid realized a cut of 29%, even before accounting for inflation. In FY 2013, the Town received a significant \$2 million increase in Chapter 70 (education aid) funding, which helped the schools cover the above-mentioned cost pressures resulting from enrollment growth and SPED. This was the most significant increase in Cherry Sheet state aid since FY 2001, when it increased \$1.3 million. Another large increase (\$1.4 million) in Ch. 70 aid was realized in FY 2014. In addition, the State increased statewide "Circuit Breaker" funding in both FY 2013 and FY 2014, a non-Cherry Sheet 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 half-decade, the Town has increased certain local receipts in order to replace revenue lost from State Aid cuts, thereby increasing reliance on local revenues to cover the increasing cost of providing services. Examples include increases in the refuse fee, fines for parking violations, and parking meter fees. The Town continues to review all current and potential sources of revenue. Along with many other communities in Massachusetts, Brookline adopted two new local options designed to raise local revenues. The first was the adoption of a 0.75% meals excise tax. The second was an amendment to the Local Room Occupancy tax, increasing the local option excise tax from 4% to 6%. Both these local options became effective on October 1, 2009, and the Town began receiving 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 2013, the \$7.1 million of certified Free Cash was used for capital projects (\$3.9 million), fund balance protection (\$1.75 million left unappropriated), reserves (\$740 thousand), affordable housing (\$251 thousand), OPEB's (\$211 thousand), and the Public Safety Injured on Duty fund (\$186 thousand).

The Capital Improvement Program (CIP)

Through the CIP process, the Town of Brookline has identified approximately \$170.8 million in capital improvements needed over the next six years. Large components of this total include the following:

- Anticipated school projects (\$97.8 million). It is important to note that the Devotion School renovation/addition project assumes that the Massachusetts School Building Authority (MSBA) covers 40% of the costs. If the MSBA chooses not to partner with the Town, then either the project needs to be reduced or a debt exclusion override will be required.
- Rehabilitation of the Town's streets and sidewalks (\$17 million). The 2008 Override included additional funding for streets and sidewalks, proof of the Town's and taxpayers' commitment to maintaining its infrastructure. State funding via the Chapter 90 program is expected to fund \$5.5 million of this work.
- Upgrades and rehabilitation of various parks/playgrounds/open spaces (\$16.6 million), including an additional \$1.2 million for the transformation of the former state-owned Fisher Hill reservoir into an active / passive open space.
- The closure of the rear landfill (\$4.6 million).
- Fire station renovations and fire apparatus (\$4.5 million).
- The Village Square project in the Brookline Village / Route 9 area (\$5.6 million). The Town anticipates receiving a significant grant through the State Transportation Improvement Program (STIP) and funding the balance of the project by utilizing the Section 108 Loan Program afforded by the Federal government under the CDBG program and outside sources related to the 2 Brookline Place redevelopment.
- Upgrade and maintenance of our waste water system (\$3.3 million), which will be borne by the water and sewer rates rather than the tax levy.

As previously detailed, enrollment in the PreK-8th grade elementary schools has increased significantly, placing pressure on both operating and capital budgets. In the current 2013-2014 school year, there are 1,336 (34%) more students than in 2005. In order to create additional classroom space, the Town, through its CIP, has appropriated funds for the following projects, all of which have increased the number of classrooms in the elementary schools:

- Runkle School Renovation / Addition (\$29.1 million, of which approximately 40% will be paid for by the State)
- Heath School Addition (\$8.5 million, of which approximately 40% will be paid for by the State)
- Classroom Capacity (\$4.8 million since FY 2008)

Even with this significant investment, census data shows that there is no abatement in the large enrollment levels. Exacerbating the issue is the fact that these larger grades will soon be making their way into the High School, which does not currently have the space to house what could be 2,400 students. Therefore, long-range planning must continue and the CIP may very well have to be adjusted 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. The joint committee of the Selectmen and School Committee that was convened to study the space issue (the B-Space Committee) recently submitted their recommendations, which includes support for a larger addition to the Devotion School, a significant addition to the Driscoll School, and an addition to the High School. The question of how to fund these projects, and the operating expenses associated with the enrollment growth, has been put in the hands of an Override Study Committee, which was appointed by the Board of Selectmen and is co-chaired by both a Selectman and a School Committee member.

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 a discount rate of 7.25%). At June 30, 2013, the Town had a balance of \$16.5 million of assets in a fiduciary-managed trust fund that is designed to be the source of funding to satisfy the obligation. GAAP requires that the unfunded liability be recognized in the basic financial statements. Beyond the trust fund, the Statement of Net Position at June 30, 2013 includes a liability of \$44.1 million for a portion of the unfunded postemployment benefits; none of the Town's assets as of that date are dedicated to the satisfaction of that liability. The recognized amount of the liability will continue to grow, and be reduced as assets are contributed to the trust fund. Future funding of the retiree healthcare obligation represents the Town's largest financial challenge.

The Town established an Other Postemployment 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 would reach full funding by approximately FY 2036.

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.

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, 2014 will be completed by December 2014. 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 76% of its annual revenue from this source. These quarterly billings result in a reasonably steady cash flow throughout the year. Every effort is made to put any reserve funds to work. This has become more challenging of late due to continuing changes in the rate of return for most traditional investment vehicles. Nevertheless, the Town's investment policy remains conservative with particular attention to the constraints of safety and liquidity while attempting to secure the highest yield available with those constraints.

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

Finally, a significant portion of the Town's non-expendable trust funds are currently managed by professional and nationally recognized investment management firms. Each of these funds has a distinct purpose and, therefore, the mix of holdings in cash, fixed income securities, and equities will vary by fund. The amount of annual income desired and the timing of disbursements generally govern the mix. The cash and investment commitments at June 30, 2013 for the funds maintained by the Town's Treasurer are as follows:

General Fund - Unencumbered	\$	26,116,154
General Fund - Encumbered		1,394,980
Reserved for :		
Special Revenue (Grant) Funds		13,722,771
Bond Financed Capital Projects		9,892,496
Revenue Financed Capital Projects		17,531,049
Enterprise Funds		2,251,169
Trust and Agency Funds		<u>23,238,055</u>
	\$	<u>94,146,674</u>

Of the \$94.1 million in total cash and investments, more than \$63.7 million is committed to General Fund contracts, Bond and Revenue Funded Capital Projects, Enterprise operations, Trust and Agency Funds and Grant funded projects, leaving approximately \$26.1 million unencumbered and not reserved for within.

Risk Management

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

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

Initiatives

Override Study Committee

As noted above, in August, 2013 the Board of Selectmen established an Override Study Committee (OSC) to "determine whether substantially more revenue capacity than what is currently anticipated will be necessary to maintain desired levels of services and fund future liabilities of the Town and PSB, and, therefore, whether a voter-approved override or overrides of Proposition 2 ½ will be necessary to raise that revenue." This action was taken in light of the many issues that were raised during the FY14 budget deliberations, especially those concerning enrollment pressures in the Public Schools of Brookline. The work of this Committee will play a very significant role in shaping future budgets for both Town departments and the School Department and in impacting future tax bills. The OSC is expected to make its recommendations to the Selectmen by March 1, 2014 specifically with respect to FY15 needs and, to the extent feasible, projected longer term needs and/or plans for further examination with respect to longer-term needs, including 1) the level(s) and purpose(s) of any override(s) and/or debt exclusion(s), and 2) an analysis of the impact of failure of those recommendations to win public support.

Performance Measurements

A major initiative in the FY 2014 Financial Plan was the use of Performance Management in the Town's budgeting and operations. The building blocks of Performance Management are basic and effective management principles: establishing strategic goals and objectives, regularly measuring progress towards these goals and making this information transparent to citizens and stakeholders. Performance management is the next and logical step from the Town Administrator's requirement that each Department Head establish SMART goals (Specific, Measurable, Attainable, Realistic and Timely). Performance management is a tool that will allow a department to better represent its successes and challenges. The ultimate goal is to bring more rigor and rationality to the process of budgeting and management and to use data and facts as much as possible to drive our decision-making.

Payroll Conversion

During the last fiscal year the Town initiated a software conversion from our current vendor, Harpers, to our new vendor, MUNIS. This effort requires that approximately 3,600 School and Town personnel records, deductions, pay classes, and other data be manually transferred to the new software. The estimated project completion date is January 1, 2014. Once this conversion is completed, two other software modules, Applicant Tracking and Employee Self-Serve, will be added. The entire conversion will be completed by approximately July, 2014. The end result will be an improvement in both the payroll and human resources functionality and a reduction of the overall cost to provide payroll services.

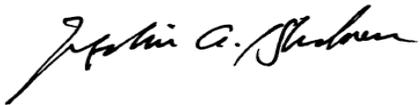
Improvements to Accounts Payable Process

Over the last few years the Town has been reviewing its workflow process as it relates to paying both vendors and employees and how record retention could be streamlined. A group of consultants from the Collins Center, part of the University of Massachusetts Boston's McCormack Graduate School of Policy and Global Studies, provided a suggested blueprint to implement these changes. To date, the Town has expanded its use of direct deposit of pay checks, streamlined the process of accounts payable records retention, and is testing a process of electronic signatures on Department Head authorization for payments. The next step in this process will be an expansion of electronic vendor payments. These accumulated changes will result in a more efficient process that expands access by departments, while reducing printing, postage and bank service costs.

Acknowledgements

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

Respectfully submitted,



Melvin A. Kleckner
Town Administrator

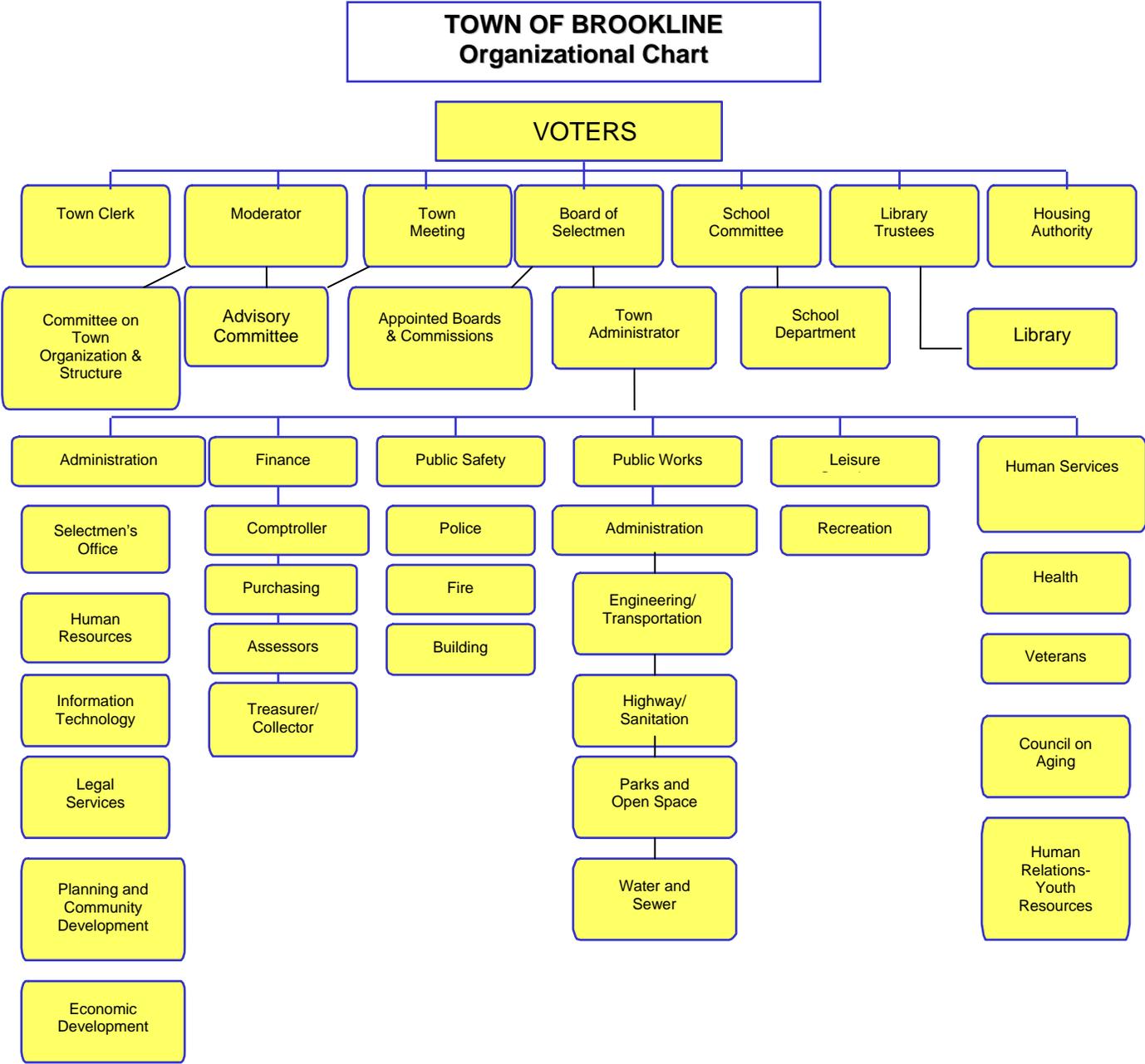


Stephen Cirillo
Finance Director



Michael F. DiPietro
Town Comptroller

Organizational Charts



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

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



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Independent 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, 2013, 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, 2013, 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 letter of transmittal and organizational charts has 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 6, 2013, 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.



December 6, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Brookline, Massachusetts, we offer readers of the Town of Brookline's financial statements this narrative overview and analysis of the financial activities of the Town of Brookline for the fiscal year ended June 30, 2013. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

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

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

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all assets 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 government's net position changed during the most recent fiscal 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 fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As shown below, governmental assets exceeded liabilities by \$186.9 million at the close of fiscal year 2013.

For the governmental activities, net position of \$164.7 million reflect the Town's investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. \$25.3 million represents resources that are subject to external restrictions on expenditures. The Town has \$39.5 million of unrestricted net position without considering the recorded liability for a portion of the postemployment healthcare obligation. That liability (\$42.6) is long-term in nature, and will not be funded from the \$39.5 million of unrestricted net position at June 30, 2013 (see the discussion of Other Postemployment Benefits in the Transmittal Letter section of this report).

Governmental Activities Net Position

At the end of the current fiscal 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 \$186.9 million at the close of fiscal year 2013.

	<i>FY 2013</i>	<i>FY 2012</i>	<i>FY 2011</i>
	<i>Governmental</i>	<i>Governmental</i>	<i>Governmental</i>
	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>
Assets:			
Current:			
Cash and cash equivalents.....	\$ 78,843,375	\$ 74,363,944	\$ 68,422,755
Investments.....	5,796,293	5,348,981	5,361,725
Receivables, net of allowance for uncollectibles.....	11,084,879	13,708,378	16,697,618
Other current assets.....	142,047	241,879	335,500
Noncurrent assets (excluding capital).....	4,140,000	4,084,000	4,661,000
Capital assets.....	<u>219,440,485</u>	<u>212,749,758</u>	<u>193,261,772</u>
Total assets.....	319,447,079	310,496,940	288,740,370
Liabilities:			
Current (excluding debt):			
Warrants payable.....	2,673,867	6,153,217	3,071,158
Tax refunds payable.....	2,350,395	2,813,606	2,129,000
Compensated absences.....	5,950,432	5,429,223	5,905,415
Other current liabilities.....	5,395,192	4,046,213	4,029,748
Noncurrent (excluding debt):			
Landfill closure.....	4,745,000	4,700,000	4,505,000
Compensated absences.....	2,212,754	3,697,486	3,687,093
Postemployment benefits.....	42,586,668	37,868,889	33,427,338
Other noncurrent liabilities.....	2,419,454	1,302,108	737,250
Current debt.....	7,835,688	7,404,634	7,931,238
Noncurrent debt.....	<u>56,343,588</u>	<u>58,370,676</u>	<u>54,479,809</u>
Total liabilities.....	132,513,038	131,786,052	119,903,049
Net Position:			
Net investment in capital assets.....	164,746,707	154,637,509	143,978,503
Restricted.....	25,317,041	29,389,324	30,469,132
Unrestricted.....	<u>(3,129,707)</u>	<u>(5,315,945)</u>	<u>(5,610,314)</u>
Total net position.....	\$ 186,934,041	\$ 178,710,888	\$ 168,837,321

The Town's governmental net position increased by \$8.2 million in fiscal year 2013. Key elements of the change are as follows:

	<u>FY 2013</u> <u>Governmental</u> <u>Activities</u>	<u>FY 2012</u> <u>Governmental</u> <u>Activities</u>	<u>FY 2011</u> <u>Governmental</u> <u>Activities</u>
Program revenues:			
Charges for services.....	\$ 26,986,251	\$ 27,302,874	\$ 25,178,204
Operating grants and contributions.....	36,275,972	34,569,633	37,112,719
Capital grants and contributions.....	5,187,062	6,537,959	1,082,836
General Revenues:			
Real estate and personal property taxes.....	169,793,700	162,093,475	156,404,746
Motor vehicle and other excise taxes.....	5,369,450	4,852,403	5,227,536
Nonrestricted grants and contributions.....	5,754,925	5,096,737	5,529,816
Unrestricted investment income.....	904,896	500,491	1,380,045
Gain/(loss) on sale of capital assets.....	-	(361,939)	1,500,417
Other revenues.....	4,902,190	4,620,395	3,796,953
Total revenues.....	<u>255,174,446</u>	<u>245,212,028</u>	<u>237,213,272</u>
Expenses:			
General government.....	19,894,781	18,767,777	18,536,862
Public safety.....	53,899,282	51,708,895	48,430,670
Education.....	133,353,925	127,421,468	120,075,185
Public works.....	22,989,195	21,655,063	21,186,278
Community and economic development.....	2,090,850	1,613,147	1,667,407
Human services.....	4,351,216	4,575,041	4,253,740
Leisure services.....	10,076,357	9,655,798	8,651,369
Interest.....	2,234,430	1,900,490	2,223,231
Total expenses.....	<u>248,890,036</u>	<u>237,297,679</u>	<u>225,024,742</u>
Transfers In(Out).....	<u>1,938,743</u>	<u>1,959,218</u>	<u>1,809,342</u>
Change in net position.....	<u>\$ 8,223,153</u>	<u>\$ 9,873,567</u>	<u>\$ 13,997,872</u>

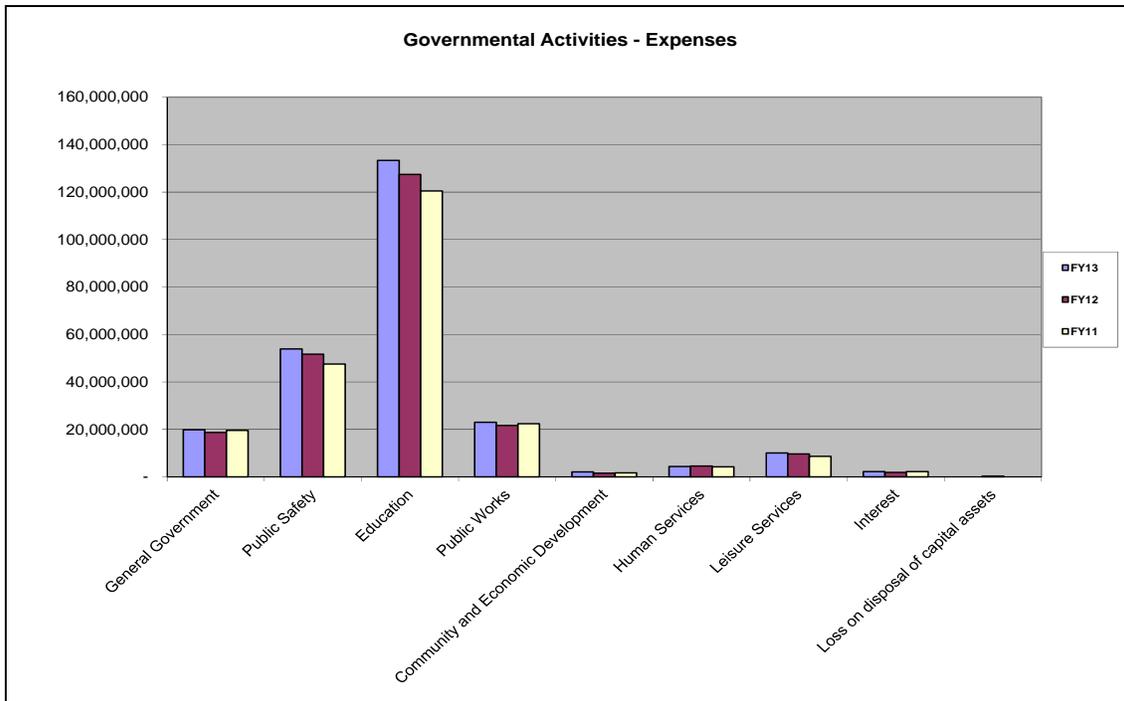
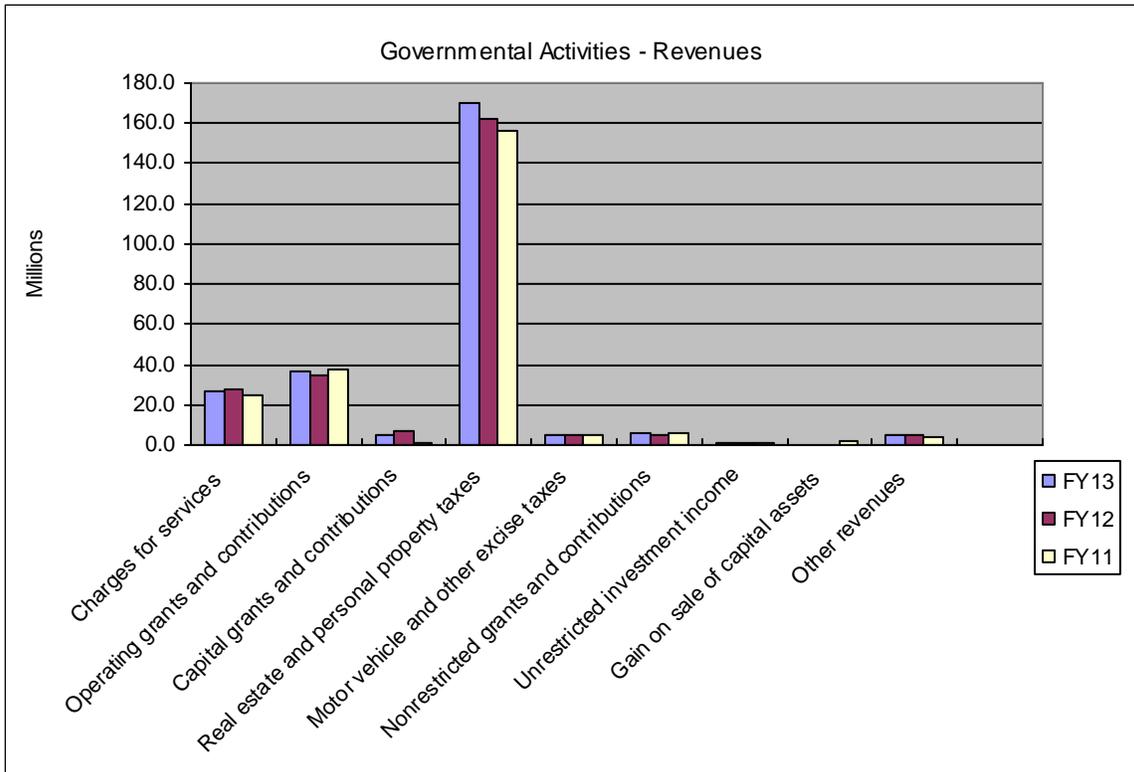
The increase in net position is due to several factors.

Net position increased by \$5.1 million from capital grants related to the MSBA Reimbursement of various school construction projects, the Town's ability to fund approximately \$6.9 million of capital additions from current revenues, the recognition of a \$100 thousand capital grant for the acquisition and future construction of a park at Fisher Hill, a \$391 thousand decrease in the liability for tax refunds payable and better than expected budgetary results.

These increases were offset by a \$4.8 million increase in the liability relating to GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This requires the recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan. In fiscal 2013 the Town, based on its actuarial valuation, reported an accrual of \$44.1 million for its portion of the liability that was not paid.

The governmental expenses totaled \$248.9 million of which \$68.4 million (27.5%) was directly supported by program revenues consisting of charges for services, operating grants and contributions and capital grants. General revenues totaled \$186.7 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid.

The following tables show the functional sources and uses of Fiscal 2013 revenues and expenses.



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$71.3 million and is comprised of \$27.2 million in the general fund, \$235 thousand in the Runkle School Renovation fund, \$16.8 million in the capital articles fund, a \$141,000 deficit in the Chapter 90 Highway fund and \$27.2 million in the nonmajor funds.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$25.8 million, while total fund balance was \$27.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11.7% of total general fund expenditures, while total fund balance represents 12.3% of that same amount

Fund balance of the General Fund increased by \$1.2 million during fiscal year 2013. This is primarily due to the budgetary surplus of \$792 thousand and a decrease in the liability for tax refunds payable of \$391 thousand.

The Runkle School Renovation Fund is used to account for financial resources for the renovation of the Runkle School building. At the end of the current fiscal year the fund has a fund balance of \$235 thousand.

The Capital Article Fund is used to account for various revenue financed capital projects. At the end of the current fiscal year the fund has a fund balance of \$16.8 million.

The Chapter 90 Highway fund is used to account for financial resources for the construction, reconstruction, and improvements to roadways, streets, and sidewalks. At the end of the current fiscal year the fund has a fund balance deficit of \$141,000. This represents projects that are underway but reimbursement requests have not been submitted.

General Fund Budgetary Highlights

There was approximately a \$2.1 million increase between the original and final budget. This change primarily represents appropriation increases to the education budget of \$430 thousand and for transfers out of \$1.75 million for the Devotion School Project. The Town has elected to carry forward encumbrances and appropriations totaling \$1.4 million.

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

	<u>FY 2013</u> <u>Water & Sewer</u> <u>Activities</u>	<u>FY 2012</u> <u>Water & Sewer</u> <u>Activities</u>	<u>FY 2011</u> <u>Water & Sewer</u> <u>Activities</u>
Assets:			
Current:			
Cash and short-term investments.....	\$ 8,505,547	\$ 7,866,750	\$ 5,666,909
Receivables, net of allowance for uncollectibles..	5,419,407	5,332,668	4,959,144
Other current assets.....	13,944	15,466	15,217
Capital assets.....	56,370,390	51,382,515	41,291,585
Total assets.....	69,634,288	64,597,399	51,932,855
Liabilities:			
Current liabilities (excluding debt).....	747,607	1,451,772	2,028,958
Noncurrent liabilities (excluding debt).....	1,696,558	1,601,552	1,343,243
Current debt.....	2,076,894	2,017,386	2,078,761
Noncurrent debt.....	8,350,721	9,698,405	11,600,191
Total liabilities.....	12,871,780	14,769,115	17,051,153
Net Position:			
Net investment in capital assets.....	52,133,125	45,356,181	30,773,912
Unrestricted.....	5,304,383	4,472,103	4,107,790
Total net position.....	57,437,508	49,828,284	34,881,702
Program revenues:			
Charges for services.....	26,427,958	25,284,535	24,190,848
Operating grants and contributions.....	-	-	34,620
Capital grants and contributions.....	4,630,861	12,553,698	3,937,252
General Revenues:			
Unrestricted investment income.....	17,387	22,748	2,789
Gain/(loss) on disposal of capital assets.....	-	(2,901)	(133,145)
Total revenues.....	31,076,206	37,858,080	28,032,364
Expenses:			
Water and sewer.....	21,658,276	21,770,935	22,039,432
Transfers In/(Out).....	(1,808,706)	(1,820,366)	(1,643,181)
Change in net position.....	\$ 7,609,224	14,266,779	4,349,751

The water and sewer enterprise net position increased by \$7.6 million during the current fiscal year. This was primarily attributable to the receipt of a capital grant of \$4.6 million from the Massachusetts Water Resource Authority, the fact that principle payments on long-term bonds exceeded depreciation expense by \$674,000 and a slight increase in user rate charges.

	<u>FY 2013</u> <u>Golf Course</u> <u>Activities</u>	<u>FY 2012</u> <u>Golf Course</u> <u>Activities</u>	<u>FY 2011</u> <u>Golf Course</u> <u>Activities</u>
Assets:			
Current:			
Cash and short-term investments.....	\$ 834,065	\$ 530,732	\$ 508,608
Other current assets.....	7,340	73,651	7,192
Capital assets.....	2,272,904	2,165,515	1,999,332
Total assets.....	2,439,309	2,769,898	2,515,132
Liabilities:			
Current liabilities (excluding debt).....	118,779	171,532	90,274
Noncurrent liabilities (excluding debt).....	721,612	273,734	300,287
Current debt.....	150,000	155,000	145,000
Noncurrent debt.....	749,000	899,000	935,000
Total liabilities.....	1,739,391	1,499,266	1,470,561
Net Position:			
Net investment in capital assets.....	1,447,414	1,390,667	1,266,223
Unrestricted.....	(72,496)	(120,035)	(221,652)
Total net position.....	1,374,918	1,270,632	1,044,571
Program revenues:			
Charges for services.....	1,221,176	1,190,422	1,122,854
General Revenues:			
Unrestricted investment income.....	3,992	8,522	516
Gain/loss on disposal of capital assets.....	-	-	(107,742)
Total revenues.....	1,225,168	1,198,944	1,015,628
Expenses:			
Golf.....	990,845	834,031	896,473
Total expenses.....	990,845	834,031	896,473
Transfers In/(Out).....	(130,037)	(138,852)	(166,161)
Change in net position.....	\$ 104,286	\$ 226,061	\$ (47,006)

The golf enterprise net position increased by \$104 thousand during the current fiscal year. The increase matched the primary objective of the fund where rates are designed to cover the cost of operations.

Capital Planning and Budgeting

Capital planning and budgeting is a critical undertaking for any government and is central to the delivery of essential services and the quality of life for residents. In fact, without a sound plan for long-term investment in infrastructure and equipment, the ability of local government to accomplish its goals is greatly hampered. In 1994, as part of the override discussion that year, the Board of Selectmen implemented a Financial Improvement Program. A key area addressed in the Program was capital planning and, since then, the Town has made a significant commitment to its Capital Improvement Program (CIP) to address the backlog of capital needs created by the under-investment in infrastructure during the late-1970's and the 1980's. Over the past decade (FY 2004 – FY 2013), the Town has authorized expenditures of more than \$171 million, for an average of \$17.1 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 2013 – FY 2018 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, 2011 was \$7.1 million. After funding strategic reserves to the levels called for in the Town's Reserve policies, and after leaving approximately \$1.75 million unappropriated to address an unreserved fund balance issue, \$3.9 million of additional pay-as-you-go capacity was made available to the CIP for FY 2013. For the out-years of the CIP, \$3.75 million is estimated for Free Cash, which yields approximately \$3 million per year for the CIP.

State/Federal grants total \$38.9 million over the six-year period. Of this amount, \$30 million represents the potential State share of the Devotion School Renovation project. The CIP assumed 40% funding by the Massachusetts School Building Authority (MSBA) for the Devotion School project; the Town must continue to work with the MSBA to see if funding will be awarded. CDBG funds add \$2.25 million over the six-year CIP, a level of funding that reflects the Town's plans to utilize the CDBG Section 108 Loan Program. This program allows the Town to take a loan for the Village Square Project and pay it back with future CDBG funds.

The "Other" funds category totals \$4.1 million, the largest piece being the \$3.25 million from the sale of the Town-owned Fisher Hill Reservoir that will be used to fund the construction of an active and passive recreation site on the State-owned land across the street.

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

It was a challenge to develop a balanced CIP that continues to reflect the various priorities of the Town while simultaneously addressing the overcrowding issue in the elementary schools. The overcrowding issue continues to be the most urgent CIP need, consuming more of the CIP and displacing / deferring other projects. The facts are simple, yet daunting: what were recently Kindergarten classes of approximately 400 – 425 students are now classes of 550 – 600. As those classes move forward through the system, there will continue to be annual classroom space deficiencies. This not only results in immediate classroom space needs in the elementary schools, it also means that the High School will begin a space crisis in 5-6 years. Obviously, the school district cannot turn away students who are legally entitled to an education in the Brookline system; therefore, a coherent and comprehensive plan to produce additional classroom space is imperative. The FY 2013 – FY 2018 CIP included the following items that address the space needs issue:

- \$1.75 million for Classroom Capacity for creating additional classroom spaces within existing school facilities. The proposed \$1.75 million continued this program and is projected to fund seven new classrooms in each SY12-13 and SY13-14.
- The Devotion School project remained at \$76.9 million, with funding for feasibility / schematic design (\$1.9 million) in FY14 and funding for construction (\$75 million) in FY15. A key component of the funding

plan is MSBA participation, at an estimated rate of 40%. A 25-year term for the construction bond is anticipated, a term this Town has not used before. However, if the Town is to undertake this project without a Debt Exclusion Override while at the same time committing to other important capital projects, a 25-year amortization period is required. Without MSBA participation, this project will need a Debt Exclusion Override. Another critical factor of the Devotion project is it must increase classroom space. Without it, the district-wide overcrowding issue remains and, as a result, the MSBA will not participate.

- A new \$50,000 item was included in FY13 for a High School Space Needs Study. As previously noted, enrollment pressure will begin hitting the High School around SY16-17 / SY17-18. Planning must begin immediately for this component of the overcrowding issue. The funding would be used to review all possible options for addressing the capacity needs of BHS.

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 2013, together with outstanding encumbrances and available budget balances, for both Debt and Revenue Funded Capital Projects.

	<u>All Capital Improvement Projects</u>			<u>Revenue Financed Projects</u>			<u>Debt Financed Projects</u>		
	<u>Expended in Fiscal 2013</u>	<u>Encumbrances</u>	<u>Available Budget</u>	<u>Expended in Fiscal 2013</u>	<u>Encumbrances</u>	<u>Available Budget</u>	<u>Expended in Fiscal 2013</u>	<u>Encumbrances</u>	<u>Available Budget</u>
General Government Capital Projects									
General Government Projects	66,270	-	-	66,270	-	-	-	-	-
Planning Projects	34,197	12,531	66,530	34,197	12,531	66,530	-	-	-
Technology Projects	425,440	33,350	92,256	425,440	33,350	92,256	-	-	-
Building & Public Safety Projects									
General Town Building Projects	5,122,772	1,027,426	2,089,341	1,186,519	436,411	826,279	3,936,252	591,015	1,263,062
Public Safety Building & Equipment Projects	92,844	4,563	899,910	92,844	4,563	899,910	-	-	-
Library Building Projects	46,339	-	-	46,339	-	-	-	-	-
School Building Projects	9,401,803	1,472,391	5,652,507	1,523,727	1,255,421	3,245,575	7,878,076	216,970	2,406,932
DPW Projects									
Landfill Related Projects	518,551	104,819	356,572	516,076	104,819	314,733	2,475	-	41,839
Highway -Traffic Related Projects	2,441,046	1,477,666	3,267,143	2,419,527	1,344,834	2,021,494	21,519	132,832	1,245,649
Park Related Projects	1,464,107	719,651	9,021,737	1,450,501	522,972	5,536,715	13,606	196,679	3,485,023
Recreation-Library Projects									
Library Projects	7,810	-	62,912	7,810	-	62,912	-	-	-
DPW Enterprise Related Projects	933,036	1,115,255	4,061,812	19,922	-	3,210	913,114	1,115,255	4,058,602
Golf Enterprise Projects	232,731	99,074	1,262,347	27,089	13,600	459,311	205,642	85,474	803,036
GRAND TOTAL	20,786,946	6,066,726	26,833,067	7,816,262	3,728,501	13,528,924	12,970,684	2,338,225	13,304,143

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, 2013 amount to \$278.1 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 \$11.8 million, including a \$6.7 million increase for governmental activities and a \$5.1 million increase for business-type activities.

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

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

- ❖ Approximately \$8.1 million was spent on school construction and renovations.
- ❖ Approximately \$9.4 million was spent on roads, sidewalks, wastewater, and other related infrastructure.
- ❖ Approximately \$2.2 million was spent on building renovations and improvements.
- ❖ Approximately \$1.4 million was spent on machinery and equipment.

Please see Note 4 for further capital asset information.

Town of Brookline's Capital Assets (Net of Depreciation)							
	Governmental Activities		Business –Type Activities		Total		
	2013	2012	2013	2012	2013	2012	
	Land	874,873	874,873	-	-	874,873	874,873
Construction in Progress	35,867,265	27,178,194	-	-	35,867,265	27,178,194	
Land Improvements	12,528,788	12,036,528	1,250,569	1,086,533	13,779,357	13,123,061	
Buildings	139,322,191	142,801,684	2,487,472	2,581,822	141,809,663	145,383,506	
Machinery and Equipment	9,899,141	10,830,938	845,068	672,596	10,744,209	11,503,534	
Infrastructure	20,948,227	19,027,541	54,060,185	49,207,079	75,008,412	68,234,620	
Total	219,440,485	212,749,758	58,643,294	53,548,030	278,083,779	266,297,788	

Long-term Debt. At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$74,855,891, of which \$63,529,276 is governmental debt and \$11,326,615 is business-type debt. This entire amount is classified as outstanding long-term debt. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources. During fiscal year 2013, the Town retired long-term debt of \$9,577,020 and refunded \$6,715,000.

On May 30 of the current fiscal year, the Town issued \$12,375,000 of general obligation bonds which was made up of a \$6,770,000 advance refunding and \$5,605,000 of new debt. Please refer to footnote 7 for more information.

Please see notes 6 and 7 for further debt information.

In fiscal 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. The Town has been approved for projects at the Runkle and Heath Schools under this program. Through the end of fiscal year 2013, the Town has recorded capital grant revenue totaling approximately \$10,107,000 and \$2,811,000 respectfully, from the MSBA which is equal to 42% and 40% of approved construction costs incurred to date. The Town received \$4,574,000 of reimbursements related to the Runkle School and \$1,749,000 related to the Heath School in fiscal 2013.

Cash and Investments

At June 30, 2013, the Town had recorded a Cash and Investments balance of \$110,638,738. Additional adjustments for accounts not maintained by the Treasurer, but included in overall financial statement cash, were Library Cash of \$260,296; Investment accounts maintained by the Trustees of the Brookline Public Library of \$4,421,809; and Cash and Investment accounts maintained by the Brookline Retirement System of \$1,943,864 and \$220,620,126, respectively. This resulted in total Cash and Investments of \$337,884,833 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, 2013

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 78,843,375	\$ 9,339,612	\$ 88,182,987
Investments.....	5,796,293	-	5,796,293
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,430,118	-	2,430,118
Tax liens.....	1,188,571	-	1,188,571
Motor vehicle excise taxes.....	132,888	-	132,888
User fees.....	103,022	-	103,022
Water and sewer fees.....	-	5,419,407	5,419,407
Departmental and other.....	2,878,368	-	2,878,368
Intergovernmental.....	4,264,493	-	4,264,493
Loans.....	87,419	-	87,419
Internal balances.....	50,000	(50,000)	-
Prepaid expenses.....	92,047	21,284	113,331
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	3,465,000	-	3,465,000
Internal balances.....	675,000	(675,000)	-
Capital assets, nondepreciable.....	36,742,138	-	36,742,138
Capital assets, net of accumulated depreciation.....	182,698,347	58,643,294	241,341,641
TOTAL ASSETS.....	319,447,079	72,698,597	392,145,676
LIABILITIES			
CURRENT:			
Warrants payable.....	2,673,867	298,937	2,972,804
Accrued liabilities.....	109,996	93,451	203,447
Accrued payroll.....	1,991,321	-	1,991,321
Tax refunds payable.....	2,350,395	-	2,350,395
Accrued interest.....	499,321	93,815	593,136
Abandoned property.....	132,223	-	132,223
Other liabilities.....	1,197,466	8,973	1,206,439
Deferred revenue.....	936,005	-	936,005
Liabilities due depositors.....	59,254	-	59,254
Landfill closure.....	75,000	-	75,000
Compensated absences.....	5,950,432	316,050	6,266,482
Workers' compensation.....	270,750	-	270,750
Unamortized premium on bonds payable.....	123,856	5,160	129,016
Notes payable.....	650,000	-	650,000
Bonds payable.....	7,185,688	2,226,894	9,412,582
NONCURRENT:			
Landfill closure.....	4,745,000	-	4,745,000
Compensated absences.....	2,212,754	93,740	2,306,494
Workers' compensation.....	1,534,250	-	1,534,250
Postemployment benefits.....	42,586,668	1,557,949	44,144,617
Unamortized premium on bonds payable.....	885,204	91,481	976,685
Bonds payable.....	56,343,588	9,099,721	65,443,309
TOTAL LIABILITIES.....	132,513,038	13,886,171	146,399,209
NET POSITION			
Invested in capital assets, net of related debt.....	164,746,707	53,580,539	218,327,246
Restricted for:			
Loans.....	87,419	-	87,419
Permanent funds:			
Expendable.....	5,418,102	-	5,418,102
Nonexpendable.....	1,368,059	-	1,368,059
Other purposes.....	18,443,461	-	18,443,461
Unrestricted.....	(3,129,707)	5,231,887	2,102,180
TOTAL NET POSITION.....	\$ 186,934,041	\$ 58,812,426	\$ 245,746,467

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 19,894,781	\$ 5,518,833	\$ 653,432	\$ -	\$ (13,722,516)
Public safety.....	53,899,282	7,723,355	446,666	-	(45,729,261)
Education.....	133,353,925	6,892,805	32,098,899	5,087,062	(89,275,159)
Public works.....	22,989,195	3,616,328	1,022,386	-	(18,350,481)
Community and economic development.....	2,090,850	-	1,235,740	-	(855,110)
Human services.....	4,351,216	322,257	460,066	-	(3,568,893)
Leisure services.....	10,076,357	2,912,673	153,262	100,000	(6,910,422)
Interest.....	2,234,430	-	205,521	-	(2,028,909)
Total Governmental Activities.....	248,890,036	26,986,251	36,275,972	5,187,062	(180,440,751)
<i>Business-Type Activities:</i>					
Golf.....	990,845	1,221,176	-	-	230,331
Water and sewer.....	21,658,276	26,427,958	-	4,630,861	9,400,543
Total Business-Type Activities.....	22,649,121	27,649,134	-	4,630,861	9,630,874
Total Primary Government.....	\$ 271,539,157	\$ 54,635,385	\$ 36,275,972	\$ 9,817,923	\$ (170,809,877)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (180,440,751)	\$ 9,630,874	\$ (170,809,877)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	169,793,700	-	169,793,700
Motor vehicle and other excise taxes.....	5,369,450	-	5,369,450
Hotel/motel tax.....	1,443,781	-	1,443,781
Local meals tax.....	928,255	-	928,255
Penalties and interest on taxes.....	621,541	-	621,541
Payments in lieu of taxes.....	1,174,370	-	1,174,370
Grants and contributions not restricted to specific programs.....	5,754,925	-	5,754,925
Unrestricted investment income.....	904,896	21,379	926,275
Miscellaneous.....	734,243	-	734,243
<i>Transfers, net</i>	1,938,743	(1,938,743)	-
Total general revenues and transfers.....	188,663,904	(1,917,364)	186,746,540
Change in net position.....	8,223,153	7,713,510	15,936,663
<i>Net Position:</i>			
Beginning of year.....	178,710,888	51,098,916	229,809,804
End of year.....	\$ <u>186,934,041</u>	\$ <u>58,812,426</u>	\$ <u>245,746,467</u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2013

ASSETS	General	Runkle School Renovation Fund	Capital Article Fund	Chapter 90 Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 33,172,408	\$ 1,373,890	\$ 17,054,241	\$ -	\$ 22,524,742	\$ 74,125,281
Investments.....	-	-	-	-	5,796,293	5,796,293
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	2,430,118	-	-	-	-	2,430,118
Tax liens.....	1,188,571	-	-	-	-	1,188,571
Motor vehicle excise taxes.....	132,888	-	-	-	-	132,888
User fees.....	103,022	-	-	-	-	103,022
Departmental and other.....	2,809,463	-	-	-	68,905	2,878,368
Intergovernmental.....	3,859,000	-	-	2,648,547	1,221,946	7,729,493
Loans.....	-	-	-	-	87,419	87,419
Due from other funds.....	909,910	-	-	-	-	909,910
Prepaid expenses.....	88,889	-	-	-	3,158	92,047
TOTAL ASSETS.....	\$ 44,694,269	\$ 1,373,890	\$ 17,054,241	\$ 2,648,547	\$ 29,702,463	\$ 95,473,410
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Warrants payable.....	\$ 1,499,273	\$ 488,550	\$ 239,660	\$ -	\$ 413,113	\$ 2,640,596
Accrued liabilities.....	14,813	-	33,378	-	40,593	88,784
Accrued payroll.....	1,991,063	-	-	-	258	1,991,321
Tax refunds payable.....	2,350,395	-	-	-	-	2,350,395
Liabilities due depositors.....	59,254	-	-	-	-	59,254
Abandoned property.....	126,226	-	-	-	5,997	132,223
Other liabilities.....	1,177,722	-	-	-	19,744	1,197,466
Deferred revenues.....	10,246,710	-	-	2,605,022	1,997,406	14,849,138
Due to other funds.....	-	-	-	184,910	-	184,910
Notes payable.....	-	650,000	-	-	-	650,000
TOTAL LIABILITIES.....	17,465,456	1,138,550	273,038	2,789,932	2,477,111	24,144,087
FUND BALANCES:						
Nonspendable.....	-	-	-	-	1,368,059	1,368,059
Restricted.....	-	-	-	-	20,107,075	20,107,075
Committed.....	-	235,340	16,781,203	-	5,750,218	22,766,761
Assigned.....	1,394,980	-	-	-	-	1,394,980
Unassigned.....	25,833,833	-	-	(141,385)	-	25,692,448
TOTAL FUND BALANCES.....	27,228,813	235,340	16,781,203	(141,385)	27,225,352	71,329,323
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 44,694,269	\$ 1,373,890	\$ 17,054,241	\$ 2,648,547	\$ 29,702,463	\$ 95,473,410

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

Total governmental fund balances.....		\$ 71,329,323
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		219,440,485
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		13,913,133
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.....		2,858,611
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(499,321)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable.....	(63,529,276)	
Landfill closure.....	(4,820,000)	
Unamortized premium on bonds payable.....	(1,009,060)	
Postemployment benefits.....	(42,586,668)	
Compensated absences.....	<u>(8,163,186)</u>	
Net effect of reporting long-term liabilities.....		<u>(120,108,190)</u>
Net position of governmental activities.....		<u>\$ 186,934,041</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

	General	Runkle School Renovation	Capital Article Fund	Chapter 90 Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ 169,351,712	\$ -	\$ -	\$ -	\$ -	\$ 169,351,712
Motor vehicle and other excise taxes.....	5,334,089	-	-	-	-	5,334,089
Hotel/motel tax.....	1,443,781	-	-	-	-	1,443,781
Local meals tax.....	928,255	-	-	-	-	928,255
Charges for services.....	4,766,177	-	-	-	-	4,766,177
Penalties and interest on taxes.....	621,541	-	-	-	-	621,541
Payments in lieu of taxes.....	1,174,370	-	-	-	-	1,174,370
Licenses and permits.....	3,546,094	-	-	-	-	3,546,094
Fines and forfeitures.....	4,275,535	-	-	-	-	4,275,535
Intergovernmental.....	31,488,153	3,262,641	-	1,157,903	11,468,872	47,377,569
Departmental and other.....	1,316,500	-	-	-	14,167,788	15,484,288
Contributions.....	-	75,383	-	-	1,044,211	1,119,594
Investment income.....	293,090	-	-	-	603,913	897,003
TOTAL REVENUES.....	224,539,297	3,338,024	-	1,157,903	27,284,784	256,320,008
EXPENDITURES:						
Current:						
General government.....	9,038,887	-	1,776,236	-	1,034,371	11,849,494
Public safety.....	34,627,812	-	189,688	-	657,724	35,475,224
Education.....	78,716,766	5,381,292	1,200,400	-	17,081,030	102,379,488
Public works.....	14,286,740	-	3,654,563	1,116,022	215,442	19,272,767
Community and economic development.....	-	-	-	-	2,090,850	2,090,850
Human services.....	2,433,878	-	4,948	-	664,778	3,103,604
Leisure services.....	4,752,525	-	34,231	-	2,649,251	7,436,007
Pension benefits.....	31,922,774	-	-	-	-	31,922,774
Fringe benefits.....	29,704,926	-	-	-	-	29,704,926
State and county charges.....	6,105,553	-	-	-	-	6,105,553
Debt service:						
Principal.....	7,404,634	-	-	-	-	7,404,634
Interest.....	2,353,079	-	-	-	-	2,353,079
TOTAL EXPENDITURES.....	221,347,574	5,381,292	6,860,066	1,116,022	24,393,446	259,098,400
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	3,191,723	(2,043,268)	(6,860,066)	41,881	2,891,338	(2,778,392)
OTHER FINANCING SOURCES (USES):						
Proceeds from bonds and notes.....	-	1,500,000	-	-	3,605,000	5,105,000
Proceeds from refunding bonds.....	6,043,600	-	-	-	-	6,043,600
Premium from issuance of bonds, net of expenditures.....	454,502	-	-	-	-	454,502
Premium from issuance of refunding bonds.....	498,792	-	-	-	-	498,792
Payments to refunded bond escrow agent.....	(6,542,392)	-	-	-	-	(6,542,392)
Transfers in.....	9,699,735	-	11,812,460	-	316,363	21,828,558
Transfers out.....	(12,128,823)	-	(187,673)	-	(7,573,319)	(19,889,815)
TOTAL OTHER FINANCING SOURCES (USES).....	(1,974,586)	1,500,000	11,624,787	-	(3,651,956)	7,498,245
NET CHANGE IN FUND BALANCES.....	1,217,137	(543,268)	4,764,721	41,881	(760,618)	4,719,853
FUND BALANCES AT BEGINNING OF YEAR.....	26,011,676	778,608	12,016,482	(183,266)	27,985,970	66,609,470
FUND BALANCES AT END OF YEAR.....	\$ 27,228,813	\$ 235,340	\$ 16,781,203	\$ (141,385)	\$ 27,225,352	\$ 71,329,323

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds.....		\$ 4,719,853
<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.....	16,647,058	
Depreciation expense.....	<u>(9,956,331)</u>	
Net effect of reporting capital assets.....		6,690,727
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(1,153,455)
<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 and notes.....	(5,105,000)	
Proceeds from refunding bonds	(6,043,600)	
Amortization of bond premiums.....	(378,252)	
Premium from issuance of refunding bonds.....	(498,792)	
Payments to refunding bond escrow agent.....	6,542,392	
Deferred charges on refunding.....	(53,600)	
Debt service principal payments.....	<u>7,404,634</u>	
Net effect of reporting long-term debt.....		1,867,782
<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.....	963,523	
Net change in accrued interest on long-term debt.....	95,999	
Net change in postemployment benefit accrual.....	(4,717,779)	
Net change in landfill accrual.....	<u>50,000</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(3,608,257)
<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>(293,497)</u>
Change in net position of governmental activities.....		<u>\$ 8,223,153</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 8,505,547	\$ 834,065	\$ 9,339,612	\$ 4,718,094
Receivables, net of allowance for uncollectibles:				
Water and sewer fees.....	5,419,407	-	5,419,407	-
Prepaid expenses.....	13,944	7,340	21,284	-
Total current assets.....	<u>13,938,898</u>	<u>841,405</u>	<u>14,780,303</u>	<u>4,718,094</u>
NONCURRENT:				
Capital assets, net of accumulated depreciation.....	56,370,390	2,272,904	58,643,294	-
Total noncurrent assets.....	<u>56,370,390</u>	<u>2,272,904</u>	<u>58,643,294</u>	<u>-</u>
TOTAL ASSETS.....	<u>70,309,288</u>	<u>3,114,309</u>	<u>73,423,597</u>	<u>4,718,094</u>
LIABILITIES				
CURRENT:				
Warrants payable.....	282,128	16,809	298,937	33,271
Accrued liabilities.....	92,762	689	93,451	21,212
Accrued interest.....	86,244	7,571	93,815	-
Due to other funds.....	-	50,000	50,000	-
Other liabilities.....	-	8,973	8,973	-
Compensated absences.....	281,313	34,737	316,050	-
Workers' compensation.....	-	-	-	270,750
Unamortized premium on bonds payable.....	5,160	-	5,160	-
Bonds payable.....	2,076,894	150,000	2,226,894	-
Total current liabilities.....	<u>2,824,501</u>	<u>268,779</u>	<u>3,093,280</u>	<u>325,233</u>
NONCURRENT:				
Due to other funds.....	-	675,000	675,000	-
Compensated absences.....	88,136	5,604	93,740	-
Workers' compensation.....	-	-	-	1,534,250
Postemployment benefits.....	1,516,941	41,008	1,557,949	-
Unamortized premium on bonds payable.....	91,481	-	91,481	-
Bonds payable.....	8,350,721	749,000	9,099,721	-
Total noncurrent liabilities.....	<u>10,047,279</u>	<u>1,470,612</u>	<u>11,517,891</u>	<u>1,534,250</u>
TOTAL LIABILITIES.....	<u>12,871,780</u>	<u>1,739,391</u>	<u>14,611,171</u>	<u>1,859,483</u>
NET POSITION				
Invested in capital assets, net of related debt.....	52,133,125	1,447,414	53,580,539	-
Unrestricted.....	5,304,383	(72,496)	5,231,887	2,858,611
TOTAL NET POSITION.....	<u>\$ 57,437,508</u>	<u>\$ 1,374,918</u>	<u>\$ 58,812,426</u>	<u>\$ 2,858,611</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water & Sewer</u>	<u>Golf Course</u>	<u>Total</u>	
<u>OPERATING REVENUES:</u>				
Charges for services	\$ 26,427,958	\$ 1,221,176	\$ 27,649,134	\$ -
Employer contributions	-	-	-	2,450,263
TOTAL OPERATING REVENUES	<u>26,427,958</u>	<u>1,221,176</u>	<u>27,649,134</u>	<u>2,450,263</u>
<u>OPERATING EXPENSES:</u>				
Cost of services and administration	19,988,402	830,444	20,818,846	-
Depreciation.....	1,343,313	125,342	1,468,655	-
Building and liability insurance claims.....	-	-	-	20,000
Employee benefits	-	-	-	2,731,653
TOTAL OPERATING EXPENSES	<u>21,331,715</u>	<u>955,786</u>	<u>22,287,501</u>	<u>2,751,653</u>
OPERATING INCOME (LOSS).....	<u>5,096,243</u>	<u>265,390</u>	<u>5,361,633</u>	<u>(301,390)</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>				
Investment income.....	17,387	3,992	21,379	7,893
Interest expense.....	(326,561)	(35,059)	(361,620)	-
Intergovernmental.....	4,630,861	-	4,630,861	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>4,321,687</u>	<u>(31,067)</u>	<u>4,290,620</u>	<u>7,893</u>
INCOME (LOSS) BEFORE TRANSFERS.....	<u>9,417,930</u>	<u>234,323</u>	<u>9,652,253</u>	<u>(293,497)</u>
<u>TRANSFERS:</u>				
Transfers out.....	(1,808,706)	(130,037)	(1,938,743)	-
CHANGE IN NET POSITION.....	7,609,224	104,286	7,713,510	(293,497)
NET POSITION AT BEGINNING OF YEAR.....	<u>49,828,284</u>	<u>1,270,632</u>	<u>51,098,916</u>	<u>3,152,108</u>
NET POSITION AT END OF YEAR.....	<u>\$ 57,437,508</u>	<u>\$ 1,374,918</u>	<u>\$ 58,812,426</u>	<u>\$ 2,858,611</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users.....	\$ 26,341,219	\$ 1,221,176	\$ 27,562,395	\$ -
Receipts from interfund services provided.....	-	-	-	2,450,263
Payments to vendors.....	(17,416,062)	(512,501)	(17,928,563)	(1,895,410)
Payments to employees.....	(2,353,965)	(355,067)	(2,709,032)	-
NET CASH FROM OPERATING ACTIVITIES.....	6,571,192	353,608	6,924,800	554,853
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers out.....	(1,808,706)	(130,037)	(1,938,743)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,808,706)	(130,037)	(1,938,743)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the issuance of bonds and notes.....	727,810	-	727,810	-
Premium from the issuance of bonds and notes.....	52,340	-	52,340	-
Premium from the issuance of refunding bonds and notes.....	59,951	-	59,951	-
Deferred charges on refunding.....	(61,351)	-	(61,351)	-
Capital grants.....	4,630,861	-	4,630,861	-
Acquisition and construction of capital assets.....	(7,129,401)	(232,731)	(7,362,132)	-
Principal payments on bonds.....	(2,017,386)	(155,000)	(2,172,386)	-
Interest expense.....	(403,900)	(36,499)	(440,399)	-
Intefund loan.....	-	500,000	500,000	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(4,141,076)	75,770	(4,065,306)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income.....	17,387	3,992	21,379	7,893
NET CASH FROM INVESTING ACTIVITIES.....	17,387	3,992	21,379	7,893
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	638,797	303,333	942,130	562,746
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	7,866,750	530,732	8,397,482	4,155,348
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 8,505,547	\$ 834,065	\$ 9,339,612	\$ 4,718,094
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ 5,096,243	\$ 265,390	\$ 5,361,633	\$ (301,390)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	1,343,313	125,342	1,468,655	-
Changes in assets and liabilities:				
Charges for services receivable.....	(86,739)	-	(86,739)	-
Due to other funds.....	-	(25,000)	(25,000)	-
Prepaid expenses.....	1,522	66,311	67,833	-
Warrants payable.....	(24,076)	(96,380)	(120,456)	25,031
Postemployment benefits.....	100,957	(3,216)	97,741	-
Accrued liabilities.....	92,762	689	93,451	21,212
Other liabilities.....	-	1,569	1,569	-
Accrued compensated absences.....	47,210	18,903	66,113	-
Workers' compensation.....	-	-	-	810,000
Total adjustments.....	1,474,949	88,218	1,563,167	856,243
NET CASH FROM OPERATING ACTIVITIES.....	\$ 6,571,192	\$ 353,608	\$ 6,924,800	\$ 554,853

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 1,943,864	\$ 574,234	\$ 1,417,902	\$ -
Investments.....	220,620,126	15,917,829	3,431,598	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	16,626	-	-	678,709
Due from other funds.....	-	-	254,551	-
TOTAL ASSETS.....	222,580,616	16,492,063	5,104,051	678,709
LIABILITIES				
Warrants payable.....	148,114	-	2,698	-
Accrued liabilities.....	-	-	273,938	-
Other liabilities.....	-	-	-	424,158
Due to other funds.....	-	-	-	254,551
TOTAL LIABILITIES.....	148,114	-	276,636	678,709
NET POSITION				
Held in trust for pension benefits, OPEB, and other purposes	\$ <u>222,432,502</u>	\$ <u>16,492,063</u>	\$ <u>4,827,415</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 16,233,221	\$ 2,601,927	\$ -
Employee.....	5,716,133	-	-
Private donations.....	-	-	137,681
Total contributions.....	<u>21,949,354</u>	<u>2,601,927</u>	<u>137,681</u>
Net investment income (loss):			
Net change in fair value of investments.....	19,479,306	-	-
Investment income (loss).....	<u>3,205,247</u>	<u>1,169,378</u>	<u>384,129</u>
Total investment income (loss).....	22,684,553	1,169,378	384,129
Less: investment expense.....	<u>(1,122,186)</u>	<u>-</u>	<u>-</u>
Net investment income (loss).....	<u>21,562,367</u>	<u>1,169,378</u>	<u>384,129</u>
Intergovernmental.....	<u>633,437</u>	<u>-</u>	<u>-</u>
Transfers from other systems.....	<u>525,222</u>	<u>-</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>44,670,380</u>	<u>3,771,305</u>	<u>521,810</u>
DEDUCTIONS:			
Administration.....	389,836	-	1,006
Transfers to other systems.....	904,085	-	-
Retirement benefits and refunds.....	25,384,768	-	-
Educational scholarships.....	<u>-</u>	<u>-</u>	<u>257,034</u>
TOTAL DEDUCTIONS.....	<u>26,678,689</u>	<u>-</u>	<u>258,040</u>
CHANGE IN NET POSITION.....	17,991,691	3,771,305	263,770
NET POSITION AT BEGINNING OF YEAR.....	<u>204,440,811</u>	<u>12,720,758</u>	<u>4,563,645</u>
NET POSITION AT END OF YEAR.....	<u>\$ 222,432,502</u>	<u>\$ 16,492,063</u>	<u>\$ 4,827,415</u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units.

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

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

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

Government-Wide Financial Statements

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

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

Program revenues include the following:

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

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

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

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

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

Motor Vehicle Excise

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

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

Refuse

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

Water & Sewer

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

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

Departmental and Other

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

Intergovernmental

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

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

Loans

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

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

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

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

G. Restricted Assets

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

H. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of financial 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 did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial 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.

I. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

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

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

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

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

Governmental Fund Financial Statements

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

J. 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".

K. 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.

L. Deferred Revenue

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

M. 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.

N. 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.

O. 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.

P. 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.

Q. Use of Estimates

Government-Wide and Fund Financial Statements

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

R. Individual Fund Deficits

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

S. 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 fiscal year-end, the carrying amount of deposits totaled \$69,806,649 and the bank balance totaled \$76,797,612. Of the bank balance, \$1,319,131 was covered by Federal Depository Insurance, \$46,114,195 was covered by the Depositors Insurance Fund, and \$29,364,286 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Town’s cash and cash equivalents consist of \$69,806,649 in deposits and \$20,368,474 in cash equivalents. These cash and cash equivalents are reported in both the primary government and the fiduciary funds. Those amounts total \$88,182,987 and \$1,992,136, respectively. See investments below for amounts designated as cash equivalents.

At December 31, 2012, the carrying amount of deposits for the Retirement System totaled \$377,503 and the bank balance totaled \$682,277. The entire bank balance of \$682,227 was covered by Federal Depository Insurance.

The Retirement System’s cash and cash equivalents consist of \$377,503 in deposits and \$1,566,361 in cash equivalents, totaling \$1,943,864. See investments below for amounts designated as cash equivalents.

Investments

The Town of Brookline had the following investments, including cash equivalents classified as investments, at June 30, 2013:

Investment Type	Fair Value	Maturity			
		Under 1 Year	1-5 Years	6-10 Years	Over 10 Years
<u>Debt Securities</u>					
United States Treasury.....	\$ 1,253,003	\$ -	\$ 363,824	\$ 775,252	\$ 113,927
Federal National Mortgage Asso.....	833,299	5,016	-	-	828,283
Federal Home Loan Mortgage Corp.....	14,192	-	2,015	-	12,177
Corporate Bonds.....	23,109	-	23,109	-	-
Total Debt Securities.....	\$ 2,123,603	\$ 5,016	\$ 388,948	\$ 775,252	\$ 954,387

<u>Other Investments</u>	
Alternative Investments - hedge funds.....	2,114,598
Bond Mutual Funds.....	637,771
Equity Securities.....	10,167,903
Equity Mutual Funds.....	10,101,845
Money Market Mutual Funds (*).....	188,601
MMDT (*).....	20,179,873
Total Investments.....	\$ 45,514,194

(*) designates cash equivalent

Total investments per above.....	\$ 45,514,194
Less: cash equivalents.....	(20,368,474)
Total Investments.....	\$ 25,145,720

The Town’s investments are reported in both the primary government and the fiduciary funds. Those amounts total \$5,796,293 and \$19,349,427, respectively.

As of December 31, 2012, the Retirement System had the following investments:

<u>Other Investments</u>	
Equity Securities.....	\$ 15,031,989
International Securities.....	6,053,991
Equity Mutual Funds.....	81,740,153
Bond Mutual Funds.....	47,634,408
PRIT Investments.....	30,227,900
Alternative Investments-Real Estate.....	39,931,685
Money Market Mutual Funds (*).....	<u>1,566,361</u>
 Total Investments.....	 \$ <u><u>222,186,487</u></u>

(*) designates cash equivalent

Custodial Credit Risk – Town Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Town’s investments, \$1,253,003 in U.S. Treasury Securities, \$833,299 in Federal National Mortgage Association, \$14,192 in Federal Home Loan Mortgage Corporation, \$23,109 in Corporate Bonds and \$10,167,903 in Equity Securities, the Town has custodial credit risk exposure of \$12,291,506 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, 2013 the Town's debt securities were rated as follows:

Quality Ratings	Rated Debt Investments - Town					Total
	United States Treasury	Federal National Mortgage Asso.	Federal Home Loan Mortgage Corp.	Corporate Bonds		
AA+.....	\$ 1,253,003	\$ 833,299	\$ 14,192	\$ 11,559	\$ 2,112,053	
BBB.....	-	-	-	11,550	11,550	
Fair Value.....	\$ <u>1,253,003</u>	\$ <u>833,299</u>	\$ <u>14,192</u>	\$ <u>23,109</u>	\$ <u>2,123,603</u>	

Custodial Credit Risk – Retirement System Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Retirement System will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Retirement System's investments the \$15,031,989 in Equity Securities and \$6,053,991 in International Securities the Retirement System has custodial credit risk exposure of \$21,085,980 because the related securities are uninsured, unregistered and held by the counterparty.

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

Interest Rate Risk – Retirement System

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

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 10.37 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, 2013, 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, 2012, the Retirement System does not have any investments that exceed the 5% threshold.

NOTE 3 – RECEIVABLES

At June 30, 2013, 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....	\$ 2,430,118	\$ -	\$ 2,430,118
Tax liens.....	1,188,571	-	1,188,571
Motor vehicle and other excise taxes.....	466,703	(333,815)	132,888
User fees.....	103,022	-	103,022
Departmental and other.....	4,337,254	(1,458,886)	2,878,368
Intergovernmental.....	7,729,493	-	7,729,493
Loans.....	87,419	-	87,419
Total.....	<u>\$ 16,342,580</u>	<u>\$ (1,792,701)</u>	<u>\$ 14,549,879</u>

At June 30, 2013, receivables for the water and sewer enterprise fund totaled \$5,419,407. The amount is considered fully collectible.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Type:</u>			
Real estate and personal property taxes....	\$ 1,836,357	\$ -	\$ 1,836,357
Tax liens.....	1,052,787	-	1,052,787
Motor vehicle and other excise taxes.....	132,888	-	132,888
User fees.....	103,022	-	103,022
Departmental and other.....	3,037,656	775,460	3,813,116
Intergovernmental.....	3,859,000	3,826,968	7,685,968
<u>Other asset type:</u>			
Due from other funds.....	225,000	-	225,000
Total.....	<u>\$ 10,246,710</u>	<u>\$ 4,602,428</u>	<u>\$ 14,849,138</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 874,873	\$ -	\$ -	\$ 874,873
Construction in progress.....	27,178,194	8,689,071	-	35,867,265
Total capital assets not being depreciated.....	28,053,067	8,689,071	-	36,742,138
<u>Capital assets being depreciated:</u>				
Land improvements.....	22,239,767	1,396,556	-	23,636,323
Buildings.....	244,422,776	2,174,160	-	246,596,936
Machinery and equipment.....	24,441,349	1,010,286	-	25,451,635
Infrastructure.....	42,681,115	3,376,985	(1,753,225)	44,304,875
Total capital assets being depreciated.....	333,785,007	7,957,987	(1,753,225)	339,989,769
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(10,203,239)	(904,296)	-	(11,107,535)
Buildings.....	(101,621,092)	(5,653,653)	-	(107,274,745)
Machinery and equipment.....	(13,610,411)	(1,942,083)	-	(15,552,494)
Infrastructure.....	(23,653,574)	(1,456,299)	1,753,225	(23,356,648)
Total accumulated depreciation.....	(149,088,316)	(9,956,331)	1,753,225	(157,291,422)
Total capital assets being depreciated, net.....	184,696,691	(1,998,344)	-	182,698,347
Total capital assets, net.....	\$ 212,749,758	\$ 6,690,727	\$ -	\$ 219,440,485
	Beginning Balance	Increases	Decreases	Ending Balance
Water & Sewer Activities:				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 201,230	\$ -	\$ -	\$ 201,230
Buildings.....	2,570,876	-	-	2,570,876
Machinery and equipment.....	1,674,925	348,487	-	2,023,412
Infrastructure.....	66,150,228	5,982,701	-	72,132,929
Total capital assets being depreciated.....	70,597,259	6,331,188	-	76,928,447
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(66,469)	(6,574)	-	(73,043)
Buildings.....	(1,119,097)	(56,077)	-	(1,175,174)
Machinery and equipment.....	(1,086,029)	(151,067)	-	(1,237,096)
Infrastructure.....	(16,943,149)	(1,129,595)	-	(18,072,744)
Total accumulated depreciation.....	(19,214,744)	(1,343,313)	-	(20,558,057)
Total capital assets being depreciated, net.....	\$ 51,382,515	\$ 4,987,875	\$ -	\$ 56,370,390

	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 1,343,024	\$ 232,731	\$ -	\$ 1,575,755
Buildings.....	1,637,365	-	-	1,637,365
Machinery and equipment.....	143,930	-	-	143,930
	<u>3,124,319</u>	<u>232,731</u>	<u>-</u>	<u>3,357,050</u>
Total capital assets being depreciated.....				
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(391,252)	(62,121)	-	(453,373)
Buildings.....	(507,322)	(38,273)	-	(545,595)
Machinery and equipment.....	(60,230)	(24,948)	-	(85,178)
	<u>(958,804)</u>	<u>(125,342)</u>	<u>-</u>	<u>(1,084,146)</u>
Total capital assets being depreciated, net.....	<u>\$ 2,165,515</u>	<u>\$ 107,389</u>	<u>\$ -</u>	<u>\$ 2,272,904</u>

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

Governmental Activities:	
General government.....	\$ 597,296
Public safety.....	1,245,713
Education.....	3,898,982
Public works.....	3,310,465
Leisure services.....	684,431
Human services.....	<u>219,444</u>
Total depreciation expense - governmental activities.....	<u>\$ 9,956,331</u>
Business-Type Activities:	
Water and Sewer.....	\$ 1,343,313
Golf.....	<u>125,342</u>
Total depreciation expense - business-type activities.....	<u>\$ 1,468,655</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:			
	General Fund	Capital Article Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 11,812,460	\$ 316,363	\$ 12,128,823
Nonmajor Governmental Funds.....	7,573,319	-	-	7,573,319
Capital Article Fund.....	187,673	-	-	187,673
Water & Sewer Enterprise Fund.....	1,808,706	-	-	1,808,706
Golf Enterprise Fund.....	130,037	-	-	130,037
	<u>\$ 9,699,735</u>	<u>\$ 11,812,460</u>	<u>\$ 316,363</u>	<u>\$ 21,828,558</u>

Transfers represent amounts voted to fund the fiscal year 2013 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.

Details related to the short-term debt activity for the fiscal year ended June 30, 2013, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2012	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2013
BAN	Schools.....	0.65	05/21/13	\$ -	\$ 650,000	\$ -	\$ 650,000

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".

On May 30 of the current fiscal year, the Town issued \$12,375,000 of general obligation bonds which was comprised of a \$6,770,000 advance refunding, and \$5,605,000 of new general obligation bonds. See below for a description of each issuance.

In order to take advantage of favorable interest rates the Town issued \$6,770,000 of general obligation refunding bonds. \$6,715,000 of general obligation bonds were defeased by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. The Town has decreased its aggregate debt service by \$530,179 and resulted in an economic gain of \$483,617. At June 30, 2013, \$5,990,000 of governmental and \$725,000 of enterprise fund bonds outstanding from the advance refunding are considered defeased.

The Town issued \$5,605,000 of new general obligation bonds. The current year financial statements have recognized bond proceeds in the amount of \$5,105,000 in the governmental funds, and \$500,000 in the sewer enterprise fund.

In previous fiscal years, certain general obligation bonds and enterprise fund bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2013, all prior defeased bonds have reached their call dates and the trust assets would have been used to pay down the remaining balances.

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

Governmental Funds			Original	Interest	Outstanding			Outstanding
Project	Maturities		Loan	Rate	at June 30,	Issued	Redeemed	at June 30,
	Through		Amount	(%)	2012			2013
<i>Inside Debt Limit</i>								
Schools.....	2013	\$	32,695,202	2.00-5.00	\$ 19,589,834	\$ 1,500,000	\$ 3,029,334	\$ 18,060,500
General Government.....	2028		46,016,075	2.00-5.00	28,265,476	9,648,600	8,910,300	29,003,776
Sub-total.....					47,855,310	11,148,600	11,939,634	47,064,276
<i>Outside Debt Limit</i>								
Schools.....	2032		19,760,000	2.00-4.00	17,920,000	-	1,455,000	16,465,000
Total Governmental Bonds Payable.....					65,775,310	11,148,600	13,394,634	63,529,276
Enterprise Funds								
<i>Inside Debt Limit</i>								
Golf Course Enterprise Fund....	2032		1,219,000	2.00-4.50	1,054,000	-	155,000	899,000
Water Enterprise Fund.....	2022		11,492,530	2.00-5.00	5,251,190	-	1,053,366	4,197,824
Sewer Enterprise Fund.....	2021		10,077,200	0.00-5.00	6,464,601	1,454,210	1,689,020	6,229,791
Total Enterprise Bonds Payable.....					12,769,791	1,454,210	2,897,386	11,326,615
Total Bonds Payable.....		\$			78,545,101	\$ 12,602,810	\$ 16,292,020	\$ 74,855,891

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

Fiscal Year	Principal	Interest	Total
2014.....	\$ 7,185,688	\$ 2,060,676	\$ 9,246,364
2015.....	6,567,294	1,920,434	8,487,728
2016.....	6,143,794	1,719,192	7,862,986
2017.....	5,915,000	1,521,956	7,436,956
2018.....	5,467,500	1,331,133	6,798,633
2019.....	5,100,000	1,147,245	6,247,245
2020.....	4,770,000	974,694	5,744,694
2021.....	3,315,000	800,392	4,115,392
2022.....	3,305,000	671,432	3,976,432
2023.....	2,730,000	551,930	3,281,930
2024.....	2,225,000	452,319	2,677,319
2025.....	2,220,000	383,443	2,603,443
2026.....	1,845,000	311,455	2,156,455
2027.....	1,645,000	246,287	1,891,287
2028.....	1,645,000	185,113	1,830,113
2029.....	975,000	119,437	1,094,437
2030.....	975,000	87,188	1,062,188
2031.....	975,000	51,748	1,026,748
2032.....	525,000	15,750	540,750
Totals.....	\$ 63,529,276	\$ 14,551,825	\$ 78,081,101

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014.....	\$ 2,226,894	\$ 365,222	\$ 2,592,116
2015.....	1,895,288	303,675	2,198,963
2016.....	1,883,788	243,015	2,126,803
2017.....	1,617,582	182,149	1,799,731
2018.....	1,228,063	129,600	1,357,663
2019.....	880,000	89,468	969,468
2020.....	750,000	58,507	808,507
2021.....	415,000	31,656	446,656
2022.....	175,000	15,956	190,956
2023.....	75,000	9,556	84,556
2024.....	25,000	6,733	31,733
2025.....	25,000	5,882	30,882
2026.....	25,000	4,976	29,976
2027.....	20,000	4,062	24,062
2028.....	20,000	3,332	23,332
2029.....	20,000	2,543	22,543
2030.....	20,000	1,780	21,780
2031.....	20,000	974	20,974
2032.....	5,000	150	5,150
Totals.....	\$ <u>11,326,615</u>	\$ <u>1,459,236</u>	\$ <u>12,785,851</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 fiscal year 2013, \$557,000 of such assistance was received for reimbursement. Approximately \$4,645,000 will be received in future fiscal years. Of this amount, \$786,000 represents reimbursement of long-term interest costs, and \$3,859,000 represents reimbursement of approved construction costs. Accordingly, a \$3,859,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In fiscal 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. The Town has been approved for projects at the Runkle and Heath Schools under this program. Through the end of fiscal year 2013, the Town has recorded capital grant revenue totaling approximately \$10,107,000 and \$2,811,000 respectfully, from the MSBA which is equal to 42% and 40% of approved construction costs incurred to date. The Town received \$4,574,000 of reimbursements related to the Runkle School and \$1,749,000 related to the Heath School in fiscal 2013.

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, 2013, the Town had the following authorized and unissued debt:

Purpose	Amount
Runkle School.....	\$ 1,163,945
Carlton Street Foot Bridge.....	1,245,000
Golf - Grounds.....	815,000
Muddy River Project.....	745,000
Heath School.....	515,906
Sewers.....	<u>2,686,155</u>
Total.....	<u>\$ 7,171,006</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

Governmental Funds

	Balance June 30, 2012	Bonds Issued	Bonds Redeemed	Other Net Increase (Decrease)	Balance June 30, 2013	Current Portion
Long-Term Bonds.....	\$ 65,775,310	\$ 11,148,600	\$ (13,394,634)	\$ -	\$ 63,529,276	\$ 7,185,688
Unamortized premium on bonds payable...	630,808	-	-	378,252	1,009,060	123,856
Other Postemployment Benefits.....	37,868,889	-	-	4,717,779	42,586,668	-
Workers' Compensation.....	995,000	-	-	810,000	1,805,000	270,750
Compensated Absences.....	9,126,709	-	-	(963,523)	8,163,186	5,950,432
Landfill Closure.....	4,870,000	-	-	(50,000)	4,820,000	75,000
Total.....	<u>\$ 119,266,716</u>	<u>\$ 11,148,600</u>	<u>\$ (13,394,634)</u>	<u>\$ 4,892,508</u>	<u>\$ 121,913,190</u>	<u>\$ 13,605,726</u>

Business-Type Activities

	Balance June 30, 2012	Bonds Issued	Bonds Redeemed	Other Net Increase (Decrease)	Balance June 30, 2013	Current Portion
Long-Term Bonds.....	\$ 12,769,791	\$ 1,454,210	\$ (2,897,386)	\$ -	\$ 11,326,615	\$ 2,226,894
Unamortized premium on bonds payable...	103,604	-	-	(6,963)	96,641	5,160
Other Postemployment Benefits.....	1,460,208	-	-	97,741	1,557,949	-
Compensated Absences.....	343,677	-	-	66,113	409,790	316,050
Total.....	<u>\$ 14,677,280</u>	<u>\$ 1,454,210</u>	<u>\$ (2,897,386)</u>	<u>\$ 156,891</u>	<u>\$ 13,390,995</u>	<u>\$ 2,548,104</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above. At fiscal year end, \$1,805,000 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:

	GOVERNMENTAL FUNDS					Total Governmental Funds
	General	Chapter 90 Highway Fund	Runkle School Renovation Fund	Capital Article Fund	Nonmajor Governmental Funds	
FUND BALANCES						
Nonspendable:						
Permanent fund principal..... \$	- \$	- \$	- \$	- \$	1,368,059 \$	1,368,059
Restricted for:						
Housing trust funds.....	-	-	-	-	4,928,244	4,928,244
Parking meter fund.....	-	-	-	-	3,855,362	3,855,362
Revolving funds.....	-	-	-	-	1,729,719	1,729,719
Trust funds.....	-	-	-	-	12,071	12,071
Federal grant funds.....	-	-	-	-	541,638	541,638
Gift and grant funds.....	-	-	-	-	3,163,064	3,163,064
Storm damage fund.....	-	-	-	-	49,591	49,591
Sale of cemetery lots/ graves.....	-	-	-	-	409,284	409,284
Non-expendable permanent funds.....	-	-	-	-	98,962	98,962
Cemetery perpetual care.....	-	-	-	-	126,937	126,937
Library permanent fund.....	-	-	-	-	4,682,105	4,682,105
Other permanent funds.....	-	-	-	-	510,098	510,098
Committed to:						
Revenue financed capital article major fund.....	-	-	235,340	16,781,203	-	17,016,543
Debt financed school capital projects.....	-	-	-	-	201,559	201,559
Debt financed town capital projects.....	-	-	-	-	5,548,659	5,548,659
Assigned to:						
General government.....	213,464	-	-	-	-	213,464
Public safety.....	293,315	-	-	-	-	293,315
Education.....	622,770	-	-	-	-	622,770
Public works.....	213,481	-	-	-	-	213,481
Human services.....	10,263	-	-	-	-	10,263
Leisure services.....	22,298	-	-	-	-	22,298
Employee benefits.....	19,389	-	-	-	-	19,389
Unassigned.....	25,833,833	(141,385)	-	-	-	25,692,448
TOTAL FUND BALANCES (DEFICIT)..... \$	27,228,813 \$	(141,385) \$	235,340 \$	16,781,203 \$	27,225,352 \$	71,329,323

Unassigned fund balance of the General Fund includes \$7.7 million of available funds voted to fund the fiscal year 2014 operating budget.

NOTE 9 – STABILIZATION FUND

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

At fiscal year-end, the balance of the General Stabilization Fund is \$5,846,185 and is reported as unassigned fund balance within the General Fund. The fund earned \$37,325 of investment income during fiscal year 2013. The stabilization fund balance can be used for general and/or capital purposes upon Town Meeting approval.

NOTE 10 – RISK FINANCING

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

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

(a) *Workers’ Compensation*

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

At June 30, 2013, the amount of the liability for workers’ compensation claims totaled \$1,805,000. Changes in the reported liability since July 1, 2011, are as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimate</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
Fiscal Year 2013.....\$	995,000	\$ 2,193,683	\$ (1,383,683)	1,805,000
Fiscal Year 2012.....	983,000	1,605,259	(1,593,259)	995,000

NOTE 11 - PENSION PLAN

Plan Description - The Town contributes to the Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Brookline Contributory Retirement Board. Substantially all employees are members of the Retirement System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$16,082,853 for the fiscal year ended June 30, 2013, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

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

At December 31, 2012, the Retirement System’s membership consists of the following:

Active members.....	1,368
Inactive members.....	1,339
Disabled members.....	180
Retirees and beneficiaries currently receiving benefits.....	<u>663</u>
 Total.....	 <u><u>3,550</u></u>

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

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

Annual Pension Cost - The Town’s contributions to the Retirement System for the fiscal years ended June 30, 2013, 2012, and 2011 were approximately \$15,644,000, \$14,442,000, and \$13,822,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2013, the Town did not have a net pension obligation. The required contribution was determined as part of an actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases of 3.5% for fiscal year 2013 and 4.5 - 4.75% for fiscal years starting with fiscal year 2014. The actuarial value of the Retirement System's assets was determined using the market value of assets less unrecognized return in each of the last five years. The Retirement System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2013 was 17 years.

Schedule of Funding Progress (Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/12	\$ 222,782,140	\$ 398,901,990	\$ 176,119,850	55.8%	\$ 61,285,463	287.4%
1/1/10	220,576,982	357,980,915	137,403,933	61.6%	58,622,493	234.4%
1/1/08	223,598,975	332,222,063	108,623,088	67.3%	59,789,007	181.7%
1/1/06	190,818,205	299,355,769	108,537,564	63.7%	58,277,406	186.2%
1/1/04	177,153,465	265,441,629	88,288,164	66.7%	52,378,086	168.6%
1/1/02	171,285,347	250,478,343	79,192,996	68.4%	45,109,610	175.6%
1/1/00	160,983,529	217,964,030	56,980,501	73.9%	43,028,894	132.4%

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

Noncontributory Retirement Allowance – The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the Retirement System. The general fund expenditure for fiscal year 2013 totaled approximately \$196,000.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

Funding Policy - Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. For 2013, the Town contributes 78% of the cost of current-year premiums for healthcare for eligible retired plan members and their spouses and 75% of current-year premiums for life insurance for eligible plan members. For fiscal year 2013, the Town contributed \$12.3 million to the plan.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for fiscal year 2013:

Annual required contribution.....	\$ 16,290,766
Interest on existing net OPEB obligation.....	2,851,360
Adjustments to annual required contribution.....	<u>(2,047,731)</u>
Annual OPEB cost (expense).....	17,094,395
Contributions made.....	<u>(12,278,875)</u>
Increase/Decrease in net OPEB obligation.....	4,815,520
Net OPEB obligation - beginning of year.....	<u>39,329,097</u>
Net OPEB obligation - end of year.....	<u><u>\$ 44,144,617</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 is as follows:

Fiscal year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/13	\$ 17,094,395	71.8%	\$ 44,144,617
6/30/12	16,268,331	71.6%	39,329,097
6/30/11	15,562,334	71.0%	34,716,281

Funded Status and Funding Progress - As of June 30, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$202 million, of which the Town has funded approximately \$12.7. The covered payroll (annual payroll of active employees covered by the plan) was \$128.6 million, and the ratio of the UAAL to the covered payroll was 147.69 percent.

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

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

In the June 30, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.25 percent investment rate of return, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 0.5 percent after six years. Both rates included a 4.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, 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 \$4,820,000 as the estimate of the rear landfill closure liability at June 30, 2013, in the government-wide financial statements governmental activities. This amount is based on estimates of what it would cost to perform all future closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 14 - INTERFUND LOAN

On June 12, 2001, the General Fund issued an interest free note in the amount of \$500,000 to Putterham Meadows Golf Club Enterprise Fund to meet projected and capital expenses. The note is payable at \$25,000 per year, due on July 1 of each year. At June 30, 2013 the outstanding loan balance was \$225,000.

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 fiscal year 2014. At June 30, 2013 the outstanding loan balance was \$500,000.

NOTE 15 - COMMITMENTS

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

The Town entered into an agreement with Waste Management of Massachusetts, Inc. to provide single stream recycling for the Town. The fiscal year 2013 cost to the Town was approximately \$880,000 and the expected cost for fiscal year 2014 is \$927,000. This contract expires on June 30, 2014.

The School Department has entered into an agreement with Eastern Bus Company, Inc. to provide for regular transportation. The fiscal year 2013 cost to the Town was approximately \$597,000 and the expected cost for fiscal year 2014 is \$524,000. The contract expires on August 31, 2014.

The School Department has also entered into an agreement with Y.C.N. Transportation, Inc. to provide transportation for its special needs students. The contract bears an annual cost of approximately \$1.2 million and it expires on August 31, 2014.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$7.2 million for renovations to the Runkle School, the Heath School, various sewer improvements, renovations to the Carlton Street Foot Bridge and various other projects.

NOTE 16 - CONTINGENCIES

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

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2013, the following GASB pronouncements were implemented:

- GASB Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #61, *The Financial Reporting Entity: Omnibus*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. The implementation of this pronouncement did not impact the basic financial statements.

Future implementation of GASB pronouncements:

- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014.

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

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Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 168,178,831	\$ 168,178,831	\$ 168,178,831
Motor vehicle and other excise taxes.....	-	4,850,000	4,850,000	4,850,000
Hotel/motel tax.....	-	1,150,000	1,150,000	1,150,000
Local meals tax.....	-	800,000	800,000	800,000
Charges for services.....	-	4,526,250	4,526,250	4,526,250
Penalties and interest on taxes.....	-	399,500	399,500	399,500
Payments in lieu of taxes.....	-	1,110,000	1,110,000	1,110,000
Licenses and permits.....	-	2,848,475	2,848,475	2,848,475
Fines and forfeitures.....	-	4,012,500	4,012,500	4,012,500
Intergovernmental.....	-	14,666,897	14,666,897	15,022,116
Departmental and other.....	-	1,062,713	1,062,713	1,062,713
Investment income.....	-	350,000	350,000	350,000
TOTAL REVENUES.....	-	203,955,166	203,955,166	204,310,385
EXPENDITURES:				
Current:				
General government.....	237,794	12,591,655	12,829,449	10,659,743
Public safety.....	374,839	34,203,529	34,578,368	35,412,715
Education.....	361,048	78,649,603	79,010,651	79,440,873
Public works.....	142,628	13,484,465	13,627,093	14,797,186
Human services.....	14,605	2,375,657	2,390,262	2,465,616
Leisure services.....	6,903	4,698,276	4,705,179	4,813,631
Pension benefits.....	37,964	15,457,674	15,495,638	15,839,921
Employee benefits.....	34,848	30,365,504	30,400,352	30,033,569
State and county charges.....	-	6,162,822	6,162,822	6,087,819
Debt service:				
Principal.....	-	7,404,634	7,404,634	7,404,634
Interest.....	-	2,534,959	2,534,959	2,534,959
TOTAL EXPENDITURES.....	1,210,629	207,928,778	209,139,407	209,490,666
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,210,629)	(3,973,612)	(5,184,241)	(5,180,281)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds, net of expenditures.....	-	-	-	-
Transfers in.....	-	9,512,062	9,512,062	9,512,062
Transfers out.....	-	(10,374,863)	(10,374,863)	(12,128,823)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(862,801)	(862,801)	(2,616,761)
NET CHANGE IN FUND BALANCE.....	(1,210,629)	(4,836,413)	(6,047,042)	(7,797,042)
BUDGETARY FUND BALANCE, Beginning of year.....	-	22,247,362	22,247,362	22,247,362
BUDGETARY FUND BALANCE, End of year.....	\$ (1,210,629)	\$ 17,410,949	\$ 16,200,320	\$ 14,450,320

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 169,029,415	\$ -	\$ 850,584
5,334,089	-	484,089
1,443,781	-	293,781
928,255	-	128,255
4,766,177	-	239,927
621,541	-	222,041
1,174,370	-	64,370
3,546,094	-	697,619
4,275,535	-	263,035
15,405,300	-	383,184
1,316,500	-	253,787
255,765	-	(94,235)
<u>208,096,822</u>	<u>-</u>	<u>3,786,437</u>
9,030,670	213,464	1,415,609
34,642,993	293,315	476,407
78,700,364	622,770	117,739
14,361,458	213,481	222,247
2,433,878	10,263	21,475
4,752,525	22,298	38,808
15,839,921	-	-
29,704,926	19,389	309,254
6,105,553	-	(17,734)
7,404,634	-	-
2,353,079	-	181,880
<u>205,330,001</u>	<u>1,394,980</u>	<u>2,765,685</u>
<u>2,766,821</u>	<u>(1,394,980)</u>	<u>6,552,122</u>
454,502	-	454,502
9,699,735	-	187,673
(12,128,823)	-	-
<u>(1,974,586)</u>	<u>-</u>	<u>642,175</u>
792,235	(1,394,980)	7,194,297
<u>22,247,362</u>	<u>-</u>	<u>-</u>
<u>\$ 23,039,597</u>	<u>\$ (1,394,980)</u>	<u>\$ 7,194,297</u>

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the Town is one participating employer, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

Retirement system schedules

BROOKLINE CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/12	\$ 222,782,140	\$ 398,901,990	\$ 176,119,850	55.8%	\$ 61,285,463	287.4%
1/1/10	220,576,982	357,980,915	137,403,933	61.6%	58,622,493	234.4%
1/1/08	223,598,975	332,222,063	108,623,088	67.3%	59,789,007	181.7%
1/1/06	190,818,205	299,355,769	108,537,564	63.7%	58,277,406	186.2%
1/1/04	177,153,465	265,441,629	88,288,164	66.7%	52,378,086	168.6%
1/1/02	171,285,347	250,478,343	79,192,996	68.4%	45,109,610	175.6%
1/1/00	160,983,529	217,964,030	56,980,501	73.9%	43,028,894	132.4%

See notes to required supplementary information.

BROOKLINE CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	System Wide			Town of Brookline	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2013	\$ 16,232,938	\$ 16,232,938	100%	\$ 15,643,824	96.37%
2012	15,025,000	15,025,000	100%	14,442,334	96.12%
2011	14,356,336	14,356,336	100%	13,821,606	96.28%
2010	12,568,346	12,568,346	100%	12,063,565	95.98%
2009	11,878,412	11,878,412	100%	11,416,914	96.11%
2008	11,367,567	11,367,567	100%	10,993,806	96.71%
2007	10,239,000	10,239,000	100%	9,855,009	96.25%

The Town's Actual Contributions equaled 100% of its Required Contributions for each year presented.

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, 2013

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)
6/30/2012	\$ 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
6/30/2008	-	323,225,372	323,225,372	0%	120,097,413	269.14

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2013	\$ 16,290,766	\$ 12,278,875	75%
2012	15,558,958	11,655,515	75%
2011	14,945,299	11,043,394	74%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods and Assumptions:

Valuation date.....	June 30, 2012
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.0%, open
Remaining amortization period.....	30 years as of June 30, 2013
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	7.25%, blended rate, pay-as-you-go scenario
Inflation.....	4.00%
Medical/drug cost trend rate.....	8.0% decreasing by .05% for 6 years to an ultimate level of 5.0% per year

Plan Membership:

Current retirees, beneficiaries, and dependents...	1,609
Current active members.....	<u>1,387</u>
Total.....	<u><u>2,996</u></u>

See notes to required supplementary information.

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

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2013 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$220,000,000 in appropriations and other amounts to be raised. During fiscal year 2013, Town Meeting approved appropriation increases totaling \$2,100,000.

Funding for the current year budget comes from two primary sources: amounts raised in the current year and reserves accumulated over time (e.g. free cash and overlay). If the amount raised in the current year is less than the total amount appropriated, reserves are used to fund the difference. In Fiscal 2013 the Town used \$5,336,413 of free cash and \$1,750,000 of overlay to balance the budget. These reserves are used to fund one-time expenses, primarily capital projects.

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

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2013, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ 792,235
 <u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	37,325
 <u>Basis of accounting differences:</u>	
Recognition of expenditures on modified accrual basis.....	65,280
Net change in recording 60-day receipts accrual.....	(68,703)
Tax refunds payable.....	391,000
Recognition of revenue for on-behalf payments.....	16,082,853
Recognition of expenditures for on-behalf payments.....	<u>(16,082,853)</u>
 Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	 \$ <u><u>1,217,137</u></u>

C. Appropriation Deficits

During fiscal year 2013, expenditures exceeded the budgeted appropriation for state & county charges. This deficit will be funded through tax levy in fiscal year 2014.

NOTE B – PENSION PLAN

The Town contributes to the System, a cost-sharing, multiple-employer defined benefit pension plan (Plan) administered by the Brookline Contributory Retirement Board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The Town is required to pay into the System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town’s proportionate share of the plan’s annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

The following actuarial methods and assumptions were used in the Retirement System’s most recent actuarial valuation:

Actuarial Methods and Assumptions:

Valuation date.....	January 1, 2012
Actuarial cost method.....	Entry Age Normal
Amortization method.....	Amortization payments increasing at 5.9%
Remaining amortization period.....	17 years as of June 30, 2013
Asset valuation method.....	Market value less unrecognized returns in the last five years

Actuarial Assumptions:

Investment rate of return.....	7.75%
Cost of living adjustments.....	3.50% - 4.75%

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 6%. 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.