

TOWN OF BROOKLINE, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2007

TOWN OF BROOKLINE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

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TOWN of BROOKLINE

Massachusetts

BOARD OF SELECTMEN

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Letter of Transmittal

December 4, 2007

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

State and Federal regulations require the Town of Brookline to publish at the end of each fiscal year a complete set of financial statements in conformity with accounting principals generally accepted in the United States of America (GAAP) that are audited in accordance with generally accepted auditing standards (GAAS) by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Report on the Examination of the Basic Financial Statements of the Town of Brookline, Massachusetts, for the fiscal year ending June 30, 2007 for your review.

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

The Town of Brookline's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Brookline for the fiscal year ended June 30, 2007, 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 principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Brookline's financial statements for the fiscal year ended June 30, 2007, 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 special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Brookline's separately issued Reports on Federal Award Programs, also known as the Single Audit Report.

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

Profile of the Government

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

Municipal Services

The Town provides general governmental services within its boundaries including:

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

Governing Bodies and Officers

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

A nine person elected school committee is responsible for the administration of all local school affairs. There is also a nine member elected Board of Library Trustees. A three person Board of Assessors, who are appointed by the Board of selectmen, are responsible for the assessment of local property taxes. A five member Retirement Board services employees in all Town Departments, except professional employees of the School Department, for retirement matters, and consists of an ex-officio member, 2 members elected by active and retired members of the Retirement System, 1 member appointed by the Selectmen and a fifth member chosen by the other 4 Board members.

Audit Committee

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

Financial and Management Systems

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

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

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

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

Principal Executive Officers

<u>Office</u>	<u>Name</u>	<u>Term</u>	<u>Term Exp.</u>
Town Administrator	Richard J. Kelliher	Appointed - 3 years	2009
Deputy Town Administrator	Sean Cronin	Appointed - 1 year	2008
Assistant Town Administrator	Melissa Goff	Appointed - 1 year	2008
Finance Director and Treasurer	Stephen Cirillo	Appointed - 1 year	2008
Town Comptroller	Judith Ann Haupin	Appointed - 1 year	2008
Town Clerk	Patrick J. Ward	Elected - 3 years	2009
Town Counsel	Jennifer Dopazo	Appointed - 3 years	2008

Factors Affecting Financial Condition

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

Tax Base/Local economy. Brookline is bordered by the City of Boston. It has both urban and suburban features and is characterized by comparatively high property values. Approximately 72% of the general fund revenues are financed by the annual taxes on property. The remaining revenues come from locally derived receipts (approximately 11%), State aid (approximately 10%), transfers from other non-general funds (approximately 5%) and other available funds (approximately 2%).

Residential property comprises 90.8% of the full and fair value of the property in Brookline and they are responsible for 84.3% of the taxes. The Town has been adopting the tax classification authorization that permits it to set two separate tax rates. The current tax rates are:

Residential	\$ 9.73 per thousand
Commercial	\$ 15.88 per thousand

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

Long-term financial planning. Through the CIP process, the Town of Brookline has identified approximately \$141.9 million in capital improvements needed over the next 6 years. Large components of this total include the following:

- ✚ anticipated school projects (\$94.6 million). It is important to note that the two major renovations projects planned for (Runkle School and Devotion School) assume the new School Building Authority (SBA) covers 50% of the costs. If that does not occur, then either the projects need to be reduced in scope or debt exclusion votes are required. The Town has submitted statements of interest to apply for SBA assistance for these projects. However, with a growing need for school construction in economically challenged communities, it is not certain that the Town of Brookline will receive SBA assistance. These projects follow the other major school projects that have recently been undertaken, including the High School renovation (\$44.8 million), the Baker School renovation (\$10.5 million), the construction of the New Lincoln School(\$13 million), and the Lawrence School renovation (\$16.1 million).
- ✚ upgrade and maintenance of our waste water system (\$4.8 million), which will be borne by the water and sewer rates rather than the tax levy.
- ✚ rehabilitation of the Town's streets and sidewalks (\$11.4 million). State funding via the Chapter 90 program is expected to fund \$4.2 million of this work.
- ✚ the Town Hall renovation(\$18.2million).
- ✚ the purchase of the former state-owned Fisher Hill reservoir for transformation into an active / passive open space (\$4.6 million, of which just \$1.35 million is supported by the tax base).
- ✚ The Gateway East project in the Brookline Village / Route 9 area (\$3 million). The Town plans on utilizing the Section 108 Loan Program afforded by the Federal government under the CDBG program to finance \$2.25 million. The remaining piece is to be funded by outside sources related to the 2 Brookline Place redevelopment.
- ✚ Landfill – Clean up of properties surrounding the Landfill (\$2.8 million). Additional costs associated with this project are yet to be determined.

On the Town's operating side, in terms of revenue, the Town continues to grapple with the lack of restoration of the local aid cuts made in FY03 and FY04. During that two year period, local aid was cut by close to \$3 million. The Town continues to be below the FY03 levels, when accounting for inflation. The current fiscal climate at the state level does not point to significant increases in local aid, so there is likely to be continued negative impacts on the Town's ability to deliver services. This has put the Town in the position of having to replace the revenue lost from the state and rely increasingly on local revenues to cover the increasing cost of providing services. Examples include recent increases in the Refuse Fee, fines for parking violations, and parking meter fees.

The Town will have to continue to review all current and potential sources of revenue and seek ways to consolidate or find optional ways to continue to deliver a high level of service at lower costs.

A number of cost centers have placed serious pressures on the operating budget, including health insurance, pensions, and utilities. Double-digit growth in health insurance premiums have been the norm over the past few years, consuming approximately one-third of all new property taxes since FY03. What was a \$12 million budget in FY03 is now \$21 million. The Town has taken steps to help blunt some of the recent increases. Most recently, the Town and its employees agreed to plan design changes in FY08 that resulted in an annualized decrease of more than \$1 million in the health insurance budget. Increases in the Town's contribution to the Retirement System has averaged approximately \$500,000 over the past five years, including the large \$1.1 million increase in FY08. Utility expenses have skyrocketed since FY03: the price of electricity has increased 143%; the price of natural gas has increased 71%; the price of heating oil has nearly tripled; and the price of vehicle fuel is two and half times what it was. As a result, the Town's total utility budget has nearly doubled since FY03 to more than \$5 million.

The Town continues to manage its financial affairs in prudent manner. It has maintained its Aaa bond rating even during the recent era characterized by limited revenue growth and major increases in fixed-costs. It has done so by incorporating long range planning tools such as a five-year forecast and a six-year Capital Improvement Program; establishing rainy day accounts and budgeting stabilization reserves; prioritizing spending plans and identifying discretionary spending; incorporating pay-as-you-go financing strategies; developing long-term planning for all liabilities including pension and insurance reserves; investing in technology to make our operations more efficient; and growing the tax base in a manner that balances neighborhood concerns with the need for additional revenues.

Brookline has also enhanced its revenue flexibility by establishing enterprise funds for certain operations. This has allowed the Town to shift 100% percent of the operating cost and capital improvements to the users of certain services so that no tax support goes towards providing these services. This includes the water, sewer and municipal golf course operations. By doing so, the Town is able to provide the maximum tax dollars available to all other services.

Cash management policies and practices. The Town of Brookline issues property tax bills four times a year and derives approximately 72% 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 collateralized repurchase account with the same depository bank. Frequently (depending on level of receipts) this money is transferred into our account at the Massachusetts Municipal Depository Trust (MMDT) that has offered a higher rate of return over the past year. This is the State Treasurer's pool of invested funds managed currently by Fidelity Investments. The Trust's investment policy requires that these funds be invested in short term fixed income securities (both government and corporate) with maturities not to exceed 90 days. Our funds in this account are entirely liquid.

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

Risk Management. The Town of Brookline manages its risk through a combination of self-insured programs and premium based coverage with commercial insurance carriers. Workers compensation, unemployment and municipal building activities are self-insured while exposures to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters are covered through policies purchased from commercial carriers. Various control techniques, including employee accident prevention training, have been performed to minimize accident-related losses. Worker's 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 \$750,000. 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

The Town engaged in several initiatives this year that have some financial impact upon the community. They are:

Group Health Insurance Joint Negotiations - Effective October 1, 2007 The Town of Brookline implemented a sweeping change in employee and retiree group health plan design which avoids a 12% premium increase and reduces the rate increase by approximately one half that amount. This had the effect of reducing the annualized premium base by approximately \$1.3 million. The current group health budget is \$21 Million.

The plan design changes entailed:

- Doubling office visit co-pays
- Doubling prescription drug co-pays
- Instituting a three tier prescription drug co-pays for retirees
- Instituting co-pays for in-patient and outpatient services.

These changes were negotiated with all the town's unions through a process available under G.L. Ch. 32B S.19 called coalition bargaining. Coalition bargaining provides bargaining rights to retirees for group health. However, it is the only statutorily allowed method for joining the State's Group Insurance Commission, if that option is to be pursued by the town.

As part of the coalition bargaining agreement the town will reimburse plan subscribers for the flat cost of inpatient and out-patient co-pays \$150 and \$250 respectively. In addition, because of instituting the 3 tier prescription drug wrap around program, the town will forego the Medicare Part D subsidy. The overall first year budget impact is a net reduction of \$970,000.

Finally, because of the plan design changes for both active employees and retirees there is a resulting reduction to the Town's estimated OPEB exposure. This has been estimated to be in the \$14 - 23 Million.

Retiree Health Actuarial Analysis -The Town of Brookline provides post employment health care benefits for certain retirees and their dependants. There were approximately 1,327 retired employees and/or spouses receiving these benefits. The town is supporting this obligation on a pay-as -you-go basis.

Two recent GASB Statements, #43 and #45, establish new accounting rules for communities, relating to the unfunded liability of post employment benefits. The Town has an immediate need to comply with GASB #45, by no later than June 30, 2008. This accounting statement requires communities to complete an actuarial analysis to determine the unfunded liability. The failure to comply with the schedule for completion would result in a qualified opinion on the annual audit for FY2008. The Town of Brookline has now accomplished this requirement.

GASB # 43 has no immediate requirement for implementation. This statement relates to how the unfunded liability is calculated and is driven by how the funds are controlled. A community that grants control of post employment benefit funds to an autonomous board, thereby protecting the funds from liability claims, is allowed to calculate the unfunded liability based upon an estimated rate of return on investment associated with stock market investments. In this case the estimated rate of return would be 8.25%. A community that has yet to grant control to an autonomous board must calculate the rate of return based upon general fund bank interest. The current bank interest yield is approximately 5.5%. If the Town of Brookline were to adopt GASB # 43, the unfunded liability would be approximately \$207 million. As the Town has yet to adopt this statement, the unfunded liability is estimated to be \$325 million. Recent joint negotiations regarding health benefits have reduced the future unfunded liability further by an estimated \$15 million.

There is currently no requirement to begin funding this liability. There is no indication that communities will be required to fund this liability in the foreseeable future. Nevertheless, in 1999, the Town created a Retiree Health Trust Fund, controlled by the Town, and has accumulated more than \$4.9 million in assets for this purpose. The Town is one of a very few communities which has begun to authorize appropriations for post employment benefits. Although there is currently a moratorium on setting funds aside for this purpose, the Town will continue to explore options for funding this obligation.

Debt Arbitrage Analysis - In 1986, the Internal Revenue Code was amended to require an arbitrage rebate for communities that made profits on investment of bond proceeds. A profit is defined as borrowing funds at tax exempt rates and then investing unexpended proceeds at higher taxable rates. There are specific measurements of expenditures: expenditure of 10% within six months of the borrowing; expenditure of 45% within one year; expenditure of 75% within eighteen months; and expenditure of 100% within two years. Failure to meet any of these timelines would trigger a determination of arbitrage. The profit would then be determined by identifying the difference between the rate of investment and the rate of borrowing. For many years the Internal Revenue Service did not pursue these provisions of the Code. In recent years, however, the federal government has begun to measure local government borrowing against the Code. Nationally, communities that benefited from investments from bond proceeds have been required to rebate profit. Significant penalties were imposed on communities that failed to voluntarily comply with the code.

The Town of Brookline, at the suggestion of its Financial Advisor began to review its own compliance with the IRS Code in the spring of 2006. Each of the capital projects supported by debt proceeds, from July 1997 through June 2006, is being analyzed. This requires a great deal of data retrieval including the date and rate of borrowing, the monthly expenditures by project from the beginning through the completion of each project, and the rate of return on investment, by month, from the beginning through the end of each project. The analysis was made more complicated by the fact that the Town has changed its financial software on three different occasions during the time frame of the analysis. The analysis is not yet completed. We will have the analysis of all other capital projects by the end of this fiscal year.

School Building Assistance – The School Building Assistance Program provides financial aid to communities to construct or reconstruct school facilities. Originally, once a capital project was completed, the State would begin to provide reimbursement of cost spread over the term of the local borrowing for the project. The State was responsible for conducting a final audit of each project, within in a very few years of the project completion, to determine final cost and reimbursement. The State fell behind in its goal to complete these audits on a timely basis. In 2004, the program was restructured and placed under the control of an independent authority chaired by the State Treasurer. The Authority recently promulgated a set of regulations that detail how the program will work going forward. The most significant change from a financial perspective is the movement away from the old system of repayment over the term of the local borrowing to a progress payment system. Communities will no longer have to borrow the State's share of the project.

One early initiative of the new MSBA was to eliminate the huge backlog of audits across the Commonwealth caused by the Department of Education's (DOE) inability to conduct audits on a timely basis. For Brookline, this means that the remaining unaudited school projects partially funded with SBA funds will be audited in CY06 – CY07. The Town of Brookline has five SBA supported school projects -- the Lincoln School (1992), the Heath School (1993), the High School (1996), the Baker School (2000), and the Lawrence School (2002) – three of which have yet to be audited by the State (Lincoln, Baker, and the High School). The Lincoln School and High School projects have debt exclusion overrides supporting the Town share of approximately 39%. All but the Lawrence School projects were subject to the previous aid reimbursement schedule coinciding with the term of the borrowing.

The material associated with the remaining three audits has been submitted to the State. With a requirement to eliminate the backlog of audits, the MSBA is working with the Town to get these audits completed. The Lincoln School is the next project to undergo a final audit. This effort will be difficult as the State did not complete the audit on a timely basis. As more than ten years have passed since the completion of the project, the Town has changed financial software three times, making electronic retrieval of data unlikely. Further, the paper documents associated with the project have deteriorated due to a sewer line break that destroyed much of the data. The High School is complicated due to the share size of the project and the fact that there was some litigation involved.

The Baker School project is not expected to be difficult to complete the final audit, however, the fact that it was litigated may complicate it.

Acknowledgements.

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

Respectfully submitted,



Richard J. Kelliher
Town Administrator

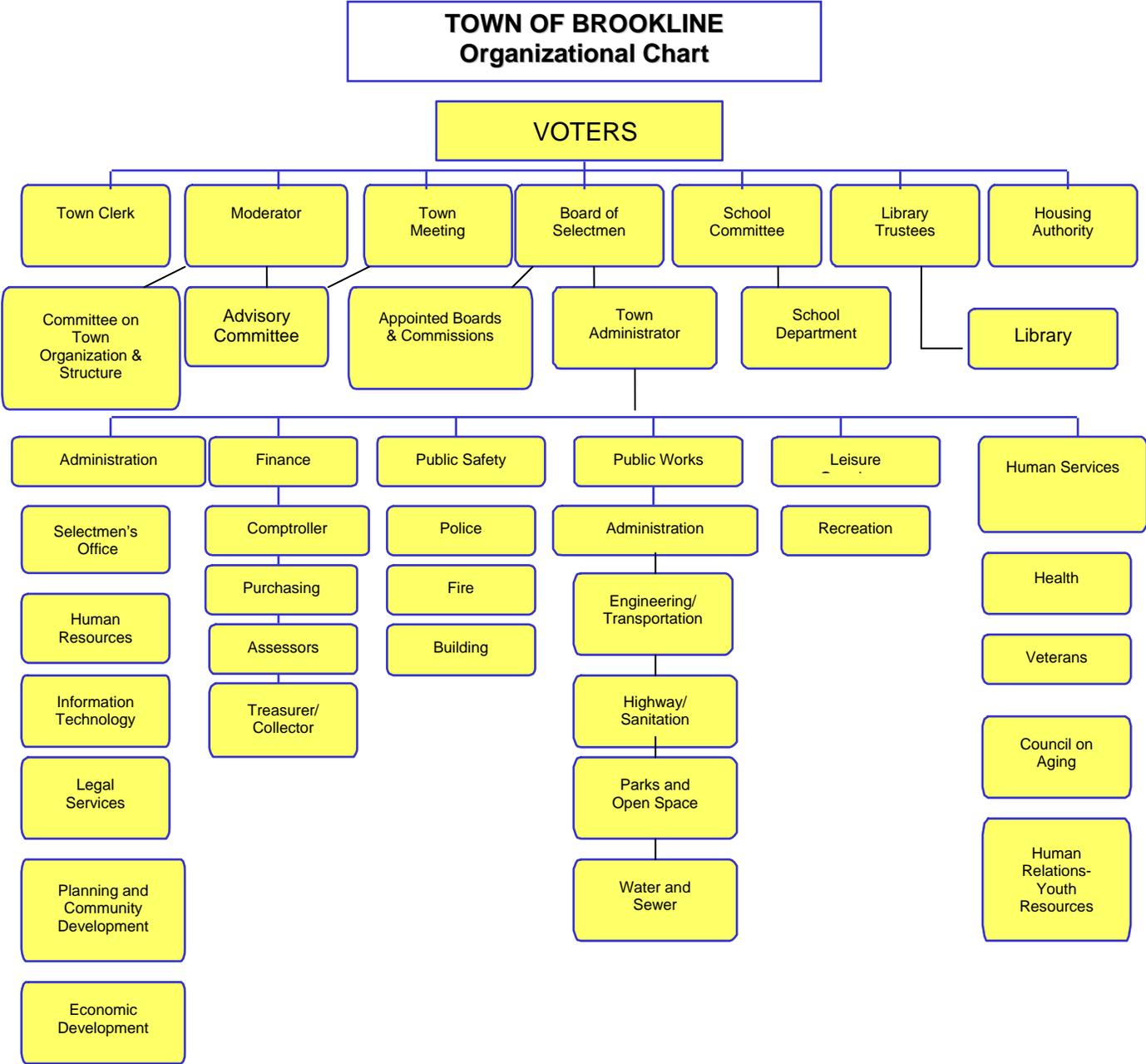


Stephen Cirillo
Finance Director



Judith A. Haupin
Town Comptroller

Organizational Charts



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

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



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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2007 (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2006), which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Brookline, Massachusetts' management. Our responsibility is to express opinions on these basic financial statements based on our audit.

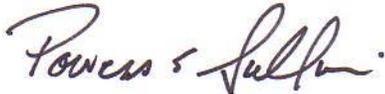
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of June 30, 2007 (except for the Brookline Contributory Retirement System which is as of December 31, 2006), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2007, on our consideration of the Town of Brookline, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in dark ink, appearing to read "Powers & Sullivan". The signature is written in a cursive, flowing style.

December 4, 2007

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Brookline, Massachusetts, we offer readers of the Town of Brookline financial statements this narrative overview and analysis of the financial activities of the Town of Brookline for the fiscal year ended June 30, 2007. 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 principals (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB establishing consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislator and others) can assess the financial condition of one government compared to others.

Government must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. If the Town of Brookline's financial statements have significant departures from GAAP the independent auditor's may issue a qualified opinion or a disclaimer (where no opinion is given). These types of opinions may have an adverse effect on the Town's bond rating and our ability to borrow money at favorable interest rates. If the Town of Brookline did not comply with GASB statement number 34 we would most likely receive a disclaimer of opinion. The Town of Brookline has received an unqualified opinion on its financial statements since the fiscal year ended June 30, 1995.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The Town uses internal service funds to account for workers' compensation benefits and municipal 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 pension benefits to its employees.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown below, governmental assets exceeded liabilities by \$190 million at the close of FY2007.

Net assets of \$131.2 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 are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. \$29.1 million represents resources that are subject to external restrictions on expenditures. The remaining balance of *unrestricted net assets* of \$29.7 million may be used to meet the government's ongoing obligations to citizens and creditors.

At this point it is important to note that in accordance with the requirements of Massachusetts finance laws and regulations, all of the unrestricted net assets are required to be reserved for designated purposes except for approximately \$4 million, which is the amount classified as "available funds" (also known as "free cash") by the Massachusetts Department of Revenue's Division of Local Services. The remaining unrestricted net assets are either already committed for expenditure or required to be retained for other purposes.

Town of Brookline – Governmental Activities Net Assets

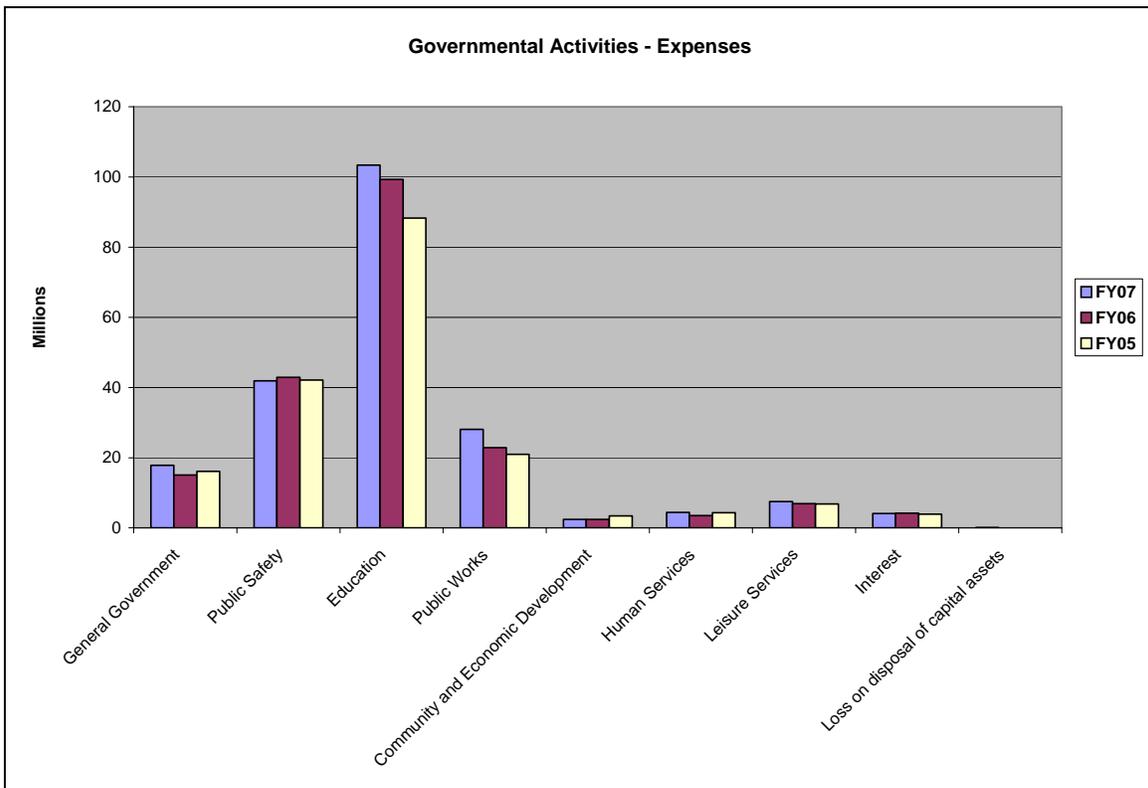
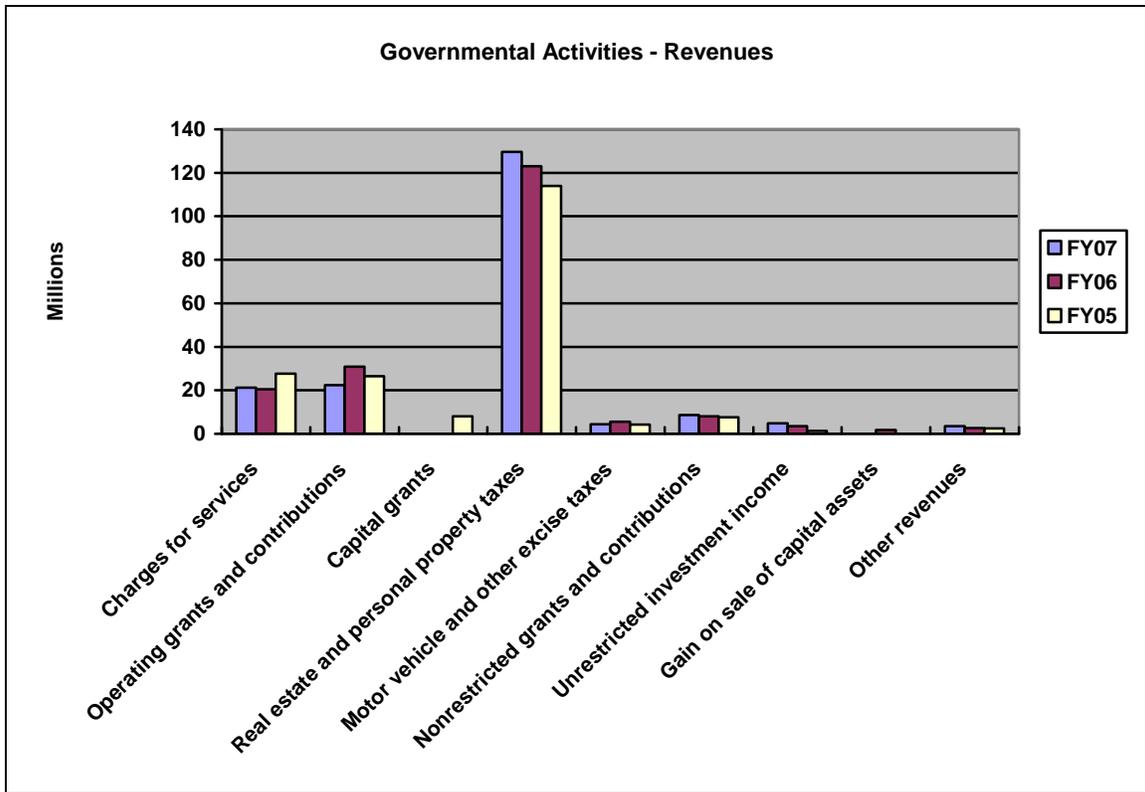
At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets. The Town's assets exceeded liabilities by \$190 million at the close of fiscal year 2007.

	<i>FY 2007</i>	<i>FY 2006</i>	<i>FY 2005</i>
	<u>Governmental Activities</u>	<u>Governmental Activities</u>	<u>Governmental Activities</u>
Assets:			
Current:			
Cash and short-term investments.....	\$ 66,892,976	\$ 73,009,756	\$ 77,872,389
Investments.....	9,746,654	8,221,769	7,530,254
Receivables, net of allowance for uncollectibles....	13,208,653	16,919,627	22,080,590
Other current assets.....	2,766,121	2,538,705	2,265,646
Noncurrent assets (excluding capital).....	30,550,600	32,608,600	37,121,600
Capital assets.....	<u>178,551,637</u>	<u>178,033,087</u>	<u>175,608,912</u>
Total assets.....	301,716,641	311,331,544	322,479,391
Liabilities:			
Current (excluding debt):			
Warrants payable.....	1,401,911	2,215,737	3,696,679
Tax refunds payable.....	1,412,000	2,535,000	2,272,000
Compensated absences.....	5,526,658	5,570,154	5,436,290
Other current liabilities.....	6,147,864	5,005,039	6,951,942
Noncurrent (excluding debt):			
Landfill closure.....	12,590,000	12,051,000	9,412,000
Compensated absences.....	3,570,923	3,997,555	3,521,010
Other noncurrent liabilities.....	420,000	878,986	1,087,368
Current debt.....	7,290,036	16,688,577	18,598,456
Noncurrent debt.....	<u>72,502,532</u>	<u>70,756,569</u>	<u>78,410,145</u>
Total liabilities.....	110,861,924	119,698,617	129,385,890
Net Assets:			
Capital assets net of related debt.....	131,241,683	126,624,544	127,123,745
Restricted.....	29,126,869	24,975,749	22,102,820
Unrestricted.....	<u>29,741,468</u>	<u>40,032,634</u>	<u>43,866,936</u>
Total net assets.....	\$ 190,110,020	\$ 191,632,927	\$ 193,093,501

Net assets from the Town's governmental activities decreased by \$1,522,907 during fiscal year 2007. Key elements of the change are as follows:

	<i>FY 2007</i>	<i>FY 2006</i>	<i>FY 2005</i>
	<i>Governmental</i>	<i>Governmental</i>	<i>Governmental</i>
	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>
Program revenues:			
Charges for services.....	\$ 21,282,214	\$ 20,506,916	\$ 19,700,500
Operating grants and contributions.....	33,491,278	30,827,808	30,557,686
Capital grants and contributions.....	-	-	5,259,400
General Revenues:			
Real estate and personal property taxes.....	129,604,095	123,144,556	118,294,166
Motor vehicle and other excise taxes.....	4,445,694	5,619,527	5,367,069
Nonrestricted grants and contributions.....	8,703,018	8,005,995	7,587,631
Unrestricted investment income.....	4,863,048	3,484,024	2,026,741
Gain on sale of capital assets.....	-	1,867	-
Other revenues.....	3,538,332	2,587,399	2,305,191
Total revenues.....	<u>205,927,679</u>	<u>194,178,092</u>	<u>191,098,384</u>
Expenses:			
General Government.....	17,819,771	15,082,397	16,110,200
Public Safety.....	41,912,690	42,887,709	42,107,638
Education.....	103,383,387	99,264,800	88,302,240
Public Works.....	28,063,980	22,844,858	20,931,387
Community and Economic Development.....	2,424,921	2,432,429	3,410,631
Human Services.....	4,448,177	3,524,414	4,293,942
Leisure Services.....	7,509,536	6,931,335	6,775,291
Interest.....	4,103,759	4,186,691	3,911,178
Loss on disposal of capital assets.....	42,300	823,259	-
Total expenses.....	<u>209,708,521</u>	<u>197,977,892</u>	<u>185,842,507</u>
Transfers In(Out).....	<u>2,257,935</u>	<u>2,339,226</u>	<u>2,190,496</u>
Change in net assets.....	<u>\$ (1,522,907)</u>	<u>\$ (1,460,574)</u>	<u>\$ 7,446,373</u>

The governmental expenses totaled \$209.7 million of which \$54.7 million (26%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$151.2 million, primarily coming from property taxes, motor vehicle and other excise, and non-restricted state aid.



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$65.1 million, of which \$31.3 million is for the general fund, \$370,000 thousand is for the Lawrence School and Longwood Playground major fund and \$33.4 million is for the nonmajor funds.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance was \$17.6 million, while total fund balance was \$31.3 million. Reservation of fund balance for Encumbrances and Continuing Appropriations totaled \$13.7 million and there was \$3.8 million designated as amounts voted to be used in fiscal 2008. Unreserved fund balance represents 9.4% of total general fund expenditures, while total fund balance represents 16.7% of that same amount.

The Lawrence School and Longwood Playground fund is used to account for the Town's ongoing school construction project to expand and upgrade school facilities and the related playground. At the end of the current fiscal year, fund balance was \$370,000. The fund received \$1.9 million from the Massachusetts School Building Authority during fiscal year 2007.

General Fund Budgetary Highlights

There was approximately a \$1.4 million change between the original and final budget. This change represented approved transfer to move all Chapter 90 activity to the Special Revenue Fund. The Town has elected to carryforward encumbrances and appropriations of \$13.7 million

Business-type Activities. Business-type activities had an increase of \$261,000 in net assets related to the water and sewer operations and an increase of \$30,000 related to the golf course operations, for an overall increase in net assets of \$291,000 for the fiscal year.

The following table identifies key elements of the enterprise operations:

	<i>FY 2007 Business-type Activities</i>	<i>FY 2006 Business-type Activities</i>	<i>FY 2005 Business-type Activities</i>
Assets:			
Current:			
Cash and short-term investments.....	\$ 313,127	\$ 2,803,438	\$ 685,412
Receivables, net of allowance for uncollectibles.....	6,218,073	6,372,001	6,227,530
Other current assets.....	(371,982)	(397,207)	(425,000)
Capital assets.....	39,203,435	38,596,083	36,658,476
Total assets.....	45,362,653	47,374,315	43,146,418
Liabilities:			
Current liabilities (excluding debt).....	447,824	544,971	838,246
Noncurrent liabilities (excluding debt).....	112,596	114,897	109,236
Current debt.....	2,144,551	7,473,510	2,122,632
Noncurrent debt.....	15,391,054	12,265,104	14,618,115
Total liabilities.....	18,096,025	20,398,482	17,688,229
Net Assets:			
Capital assets net of related debt.....	21,667,830	18,857,469	19,917,729
Unrestricted.....	5,598,798	8,118,364	5,540,460
Total net assets.....	27,266,628	26,975,833	25,458,189
Program revenues:			
Charges for services.....	23,527,304	21,755,205	21,664,557
Operating grants and contributions.....	57,486	21,134	-
Capital grants and contributions.....	-	337,500	-
Total revenues.....	23,584,790	22,113,839	21,664,557
Expenses:			
Golf.....	1,006,281	752,000	1,026,963
Water and sewer.....	20,029,779	17,504,969	16,743,930
Total expenses.....	21,036,060	18,256,969	17,770,893
Transfers In/(Out).....	(2,257,935)	(2,339,226)	(2,190,496)
Change in net assets.....	\$ 290,795	\$ 1,517,644	\$ 1,703,168

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, 2007 amount to \$217.8 million (net of depreciation). This investment in capital assets includes land, buildings, improvements to land and buildings, machinery and equipment, vehicles, roads, sidewalks, bridges and water and sewer lines.

The net increase in the Town of Brookline's investment in capital assets for the current year was \$1.1 million, including a \$518,000 increase for governmental activities and a \$607,000 increase for business-type activities.

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

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

- ❖ Approximately \$1 million was spent on water, sewer, and surface drainage system construction and replacement.
- ❖ Over \$2.6 million was spent on machinery and equipment.
- ❖ Over \$1.3 million was spent on street and sidewalk projects.
- ❖ Over \$5 million was spent on building renovations and improvements

Town of Brookline's Capital Assets						
(Net of Depreciation)						
	Governmental		Business –Type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Land	79,727	79,727	-	-	79,727	79,727
Construction in Progress	801,778	3,030,328	-	-	801,778	3,030,328
Land Improvements	10,441,446	9,695,097	887,633	923,898	11,329,249	10,618,975
Buildings	144,050,741	141,771,209	2,882,867	2,991,223	146,933,608	144,462,432
Machinery and Equipment	8,774,142	8,993,225	954,017	1,011,064	9,728,159	10,004,289
Infrastructure	14,403,633	14,463,521	34,478,918	33,669,898	48,882,551	48,133,419
Total	178,551,637	178,033,087	39,203,435	38,596,083	217,755,072	216,629,170

Long-term Debt. At the end of the current fiscal year, the Town of Brookline had total bonded debt outstanding of \$97,328,173. The entire amount is classified as general obligation debt and is backed by the full faith and credit of the Town. All of this amount is classified as outstanding long-term debt. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources. During fiscal 2007, the Town retired long term debt of \$9,696,587 and retired short term debt outstanding of \$3,441,000.

The Town of Brookline issued \$2,516,000 in general obligation bonds to finance several capital improvements. Included in these issues was \$1,600,000 in general obligation bonds for renovations to the Swimming Pool and Building.

The enterprise funds have \$17,535,605 in outstanding bonds that are fully supported by the rates and do not rely on a general fund subsidy.

Requests for Information

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

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

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 66,892,976	\$ 313,127	\$ 67,206,103
Investments.....	9,746,654	-	9,746,654
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,003,907	-	1,003,907
Tax liens.....	882,450	-	882,450
Motor vehicle excise taxes.....	212,679	-	212,679
User fees.....	116,027	-	116,027
Water and sewer fees.....	-	6,218,073	6,218,073
Departmental and other.....	4,483,256	-	4,483,256
Intergovernmental.....	6,251,490	-	6,251,490
Loans.....	258,844	-	258,844
Internal balances.....	375,000	(375,000)	-
Other assets.....	2,390,905	-	2,390,905
Prepaid expenses.....	216	3,018	3,234
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	30,550,600	-	30,550,600
Capital assets, net of accumulated depreciation.....	<u>178,551,637</u>	<u>39,203,435</u>	<u>217,755,072</u>
TOTAL ASSETS.....	<u>301,716,641</u>	<u>45,362,653</u>	<u>347,079,294</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	1,401,911	9,381	1,411,292
Accrued liabilities.....	1,778,611	-	1,778,611
Accrued payroll.....	1,075,078	-	1,075,078
Tax refunds payable.....	1,412,000	-	1,412,000
Accrued interest.....	852,112	155,629	1,007,741
Abandoned property.....	5,997	-	5,997
Other liabilities.....	810,803	-	810,803
Deferred revenue.....	744,697	-	744,697
Customer deposits payable.....	339,277	-	339,277
Capital lease obligations.....	125,986	-	125,986
Compensated absences.....	5,526,658	282,814	5,809,472
Workers' compensation.....	1,160,000	-	1,160,000
Bonds and notes payable.....	7,290,036	2,144,551	9,434,587
NONCURRENT:			
Landfill closure.....	12,590,000	-	12,590,000
Compensated absences.....	3,570,923	112,596	3,683,519
Workers' compensation.....	420,000	-	420,000
Bonds and notes payable.....	<u>72,502,532</u>	<u>15,391,054</u>	<u>87,893,586</u>
TOTAL LIABILITIES.....	<u>111,606,621</u>	<u>18,096,025</u>	<u>129,702,646</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	131,241,683	21,667,830	152,909,513
Restricted for:			
Loans.....	258,844	-	258,844
Permanent funds:			
Expendable.....	4,920,863	-	4,920,863
Nonexpendable.....	1,058,038	-	1,058,038
Other purposes.....	22,889,124	-	22,889,124
Unrestricted.....	<u>29,741,468</u>	<u>5,598,798</u>	<u>35,340,266</u>
TOTAL NET ASSETS.....	<u>\$ 190,110,020</u>	<u>\$ 27,266,628</u>	<u>\$ 217,376,648</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
<i>Governmental Activities:</i>				
General government.....	\$ 17,819,771	\$ 4,387,459	\$ 1,086,097	\$ (12,346,215)
Public safety.....	41,912,690	7,786,151	572,554	(33,553,985)
Education.....	103,383,387	4,411,903	24,732,678	(74,238,806)
Public works.....	28,063,980	2,862,492	2,190,533	(23,010,955)
Community and economic development...	2,424,921	10,005	1,651,333	(763,583)
Human services.....	4,448,177	21,775	977,286	(3,449,116)
Leisure services.....	7,509,536	1,802,429	702,469	(5,004,638)
Interest.....	4,103,759	-	1,578,328	(2,525,431)
Loss on disposal of capital assets.....	42,300	-	-	(42,300)
Total Governmental Activities.....	209,708,521	21,282,214	33,491,278	(154,935,029)
<i>Business-Type Activities:</i>				
Golf.....	1,006,281	1,189,978	-	183,697
Water and sewer.....	20,029,779	22,337,326	57,486	2,365,033
Total Business-Type Activities.....	21,036,060	23,527,304	57,486	2,548,730
Total Primary Government.....	\$ 230,744,581	\$ 44,809,518	\$ 33,548,764	\$ (152,386,299)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (154,935,029)	\$ 2,548,730	\$ (152,386,299)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	129,604,095	-	129,604,095
Motor vehicle and other excise taxes.....	4,445,694	-	4,445,694
Hotel/motel tax.....	799,339	-	799,339
Penalties and interest on taxes.....	428,659	-	428,659
Payments in lieu of taxes.....	774,270	-	774,270
Grants and contributions not restricted to specific programs.....	8,703,018	-	8,703,018
Unrestricted investment income.....	4,863,048	-	4,863,048
Miscellaneous.....	1,536,064	-	1,536,064
<i>Transfers, net</i>	<u>2,257,935</u>	<u>(2,257,935)</u>	<u>-</u>
Total general revenues and transfers.....	<u>153,412,122</u>	<u>(2,257,935)</u>	<u>151,154,187</u>
Change in net assets.....	(1,522,907)	290,795	(1,232,112)
<i>Net Assets:</i>			
Beginning of year.....	<u>191,632,927</u>	<u>26,975,833</u>	<u>218,608,760</u>
End of year.....	\$ <u><u>190,110,020</u></u>	\$ <u><u>27,266,628</u></u>	\$ <u><u>217,376,648</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2007

ASSETS	General	Lawrence School & Longwood Playground Renovations	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 34,628,210	\$ 370,441	\$ 28,409,245	\$ 63,407,896
Investments.....	-	-	5,349,545	5,349,545
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,003,907	-	-	1,003,907
Tax liens.....	882,450	-	-	882,450
Motor vehicle excise taxes.....	212,679	-	-	212,679
User fees.....	116,027	-	-	116,027
Departmental and other.....	4,333,456	-	149,800	4,483,256
Intergovernmental.....	32,608,600	-	4,193,490	36,802,090
Loans.....	-	-	258,844	258,844
Due from other funds.....	375,000	-	-	375,000
Other assets.....	2,390,905	-	-	2,390,905
Prepaid expenses.....	-	-	216	216
TOTAL ASSETS.....	\$ 76,551,234	\$ 370,441	\$ 38,361,140	\$ 115,282,815
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 1,222,722	\$ -	\$ 168,804	\$ 1,391,526
Accrued liabilities.....	1,429,584	-	199,027	1,628,611
Accrued payroll.....	1,074,440	-	638	1,075,078
Tax refunds payable.....	1,412,000	-	-	1,412,000
Liabilities due depositors.....	339,277	-	-	339,277
Abandoned property.....	-	-	5,997	5,997
Other liabilities.....	777,303	-	33,500	810,803
Deferred revenues.....	38,980,097	-	4,520,581	43,500,678
TOTAL LIABILITIES.....	45,235,423	-	4,928,547	50,163,970
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	13,677,954	-	-	13,677,954
Loans.....	-	-	258,844	258,844
Perpetual permanent funds.....	-	-	1,058,038	1,058,038
Unreserved:				
Designated for subsequent year's expenditures.....	3,814,792	-	-	3,814,792
Undesignated, reported in:				
General fund.....	13,823,065	-	-	13,823,065
Special revenue funds.....	-	-	22,907,773	22,907,773
Capital projects funds.....	-	370,441	4,287,075	4,657,516
Permanent funds.....	-	-	4,920,863	4,920,863
TOTAL FUND BALANCES.....	31,315,811	370,441	33,432,593	65,118,845
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 76,551,234	\$ 370,441	\$ 38,361,140	\$ 115,282,815

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2007

Total governmental fund balances.....		\$ 65,118,845
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		178,551,637
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		42,755,981
Internal service funds are used by management to account for liability, health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		6,141,806
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(852,112)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(79,792,570)	
Capital lease obligations.....	(125,986)	
Landfill closure.....	(12,590,000)	
Compensated absences.....	(9,097,581)	
Net effect of reporting long-term liabilities.....		<u>(101,606,137)</u>
Net assets of governmental activities.....		<u>\$ 190,110,020</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2007

	General	Lawrence School & Longwood Playground Renovations	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 129,833,124	\$ -	\$ -	\$ 129,833,124
Motor vehicle and other excise taxes.....	4,407,452	-	-	4,407,452
Hotel/motel tax.....	799,339	-	-	799,339
Charges for services.....	4,881,463	-	-	4,881,463
Penalties and interest on taxes.....	428,659	-	-	428,659
Payments in lieu of taxes.....	774,270	-	-	774,270
Licenses and permits.....	3,413,839	-	-	3,413,839
Fines and forfeitures.....	4,020,887	-	-	4,020,887
Intergovernmental.....	29,272,642	1,908,983	12,028,109	43,209,734
Departmental and other.....	578,128	-	8,838,734	9,416,862
Contributions.....	-	-	3,437,310	3,437,310
Investment income.....	2,782,461	-	1,374,544	4,157,005
TOTAL REVENUES.....	181,192,264	1,908,983	25,678,697	208,779,944
EXPENDITURES:				
Current:				
General government.....	8,967,031	-	1,418,290	10,385,321
Public safety.....	35,241,481	-	987,665	36,229,146
Education.....	60,248,406	341,937	15,311,636	75,901,979
Public works.....	16,240,723	-	8,060,085	24,300,808
Community and economic development.....	-	-	2,424,921	2,424,921
Human services.....	2,085,448	-	1,012,388	3,097,836
Leisure services.....	4,389,318	-	1,577,901	5,967,219
Pension benefits.....	20,933,546	-	-	20,933,546
Fringe benefits.....	22,291,764	-	-	22,291,764
State and county charges.....	5,375,086	-	-	5,375,086
Debt service:				
Principal.....	7,343,577	-	-	7,343,577
Interest.....	4,107,806	-	1,836	4,109,642
TOTAL EXPENDITURES.....	187,224,186	341,937	30,794,722	218,360,845
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(6,031,922)	1,567,046	(5,116,025)	(9,580,901)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	766,000	1,600,000	2,366,000
Premium from issuance of bonds, net of expenditures..	1,460	-	-	1,460
Sale of capital assets.....	566,855	-	-	566,855
Transfers in.....	4,516,647	-	1,716,999	6,233,646
Transfers out.....	(1,716,999)	-	(2,258,712)	(3,975,711)
TOTAL OTHER FINANCING SOURCES (USES)	3,367,963	766,000	1,058,287	5,192,250
NET CHANGE IN FUND BALANCES.....	(2,663,959)	2,333,046	(4,057,738)	(4,388,651)
FUND BALANCES AT BEGINNING OF YEAR.....	33,979,770	(1,962,605)	37,490,331	69,507,496
FUND BALANCES AT END OF YEAR.....	\$ 31,315,811	\$ 370,441	\$ 33,432,593	\$ 65,118,845

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, 2007

Net change in fund balances - total governmental funds..... \$ (4,388,651)

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.

Capital outlay.....	8,139,009	
Depreciation expense.....	<u>(7,620,459)</u>	
Net effect of reporting capital assets.....		518,550

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..... (4,126,625)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Capital lease financing.....	219,460	
Proceeds from bonds and notes.....	(2,366,000)	
Debt service principal payments.....	<u>7,343,577</u>	
Net effect of reporting long-term debt.....		5,197,037

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.

Net change in compensated absences accrual.....	470,128	
Net change in accrued interest on long-term debt.....	5,883	
Net change in landfill accrual.....	<u>(539,000)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(62,989)

Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with Governmental Activities.....		<u>1,339,771</u>
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Change in net assets of governmental activities..... \$ (1,522,907)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2007

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 144,320	\$ 168,807	\$ 313,127	\$ 3,485,080
Investments.....	-	-	-	4,397,109
Receivables, net of allowance for uncollectibles:				
Water and sewer fees.....	6,218,073	-	6,218,073	-
Internal balances.....	-	(375,000)	(375,000)	-
Prepaid expenses.....	2,886	132	3,018	-
Total current assets.....	<u>6,365,279</u>	<u>(206,061)</u>	<u>6,159,218</u>	<u>7,882,189</u>
NONCURRENT:				
Capital assets, net of accumulated depreciation.....	<u>37,179,936</u>	<u>2,023,499</u>	<u>39,203,435</u>	<u>-</u>
Total noncurrent assets.....	<u>37,179,936</u>	<u>2,023,499</u>	<u>39,203,435</u>	<u>-</u>
TOTAL ASSETS.....	<u>43,545,215</u>	<u>1,817,438</u>	<u>45,362,653</u>	<u>7,882,189</u>
LIABILITIES				
CURRENT:				
Warrants payable.....	3,917	5,464	9,381	10,383
Accrued liabilities.....	-	-	-	150,000
Accrued interest.....	150,695	4,934	155,629	-
Compensated absences.....	251,447	31,367	282,814	-
Workers' compensation.....	-	-	-	1,160,000
Bonds and notes payable.....	<u>2,000,842</u>	<u>143,709</u>	<u>2,144,551</u>	<u>-</u>
Total current liabilities.....	<u>2,406,901</u>	<u>185,474</u>	<u>2,592,375</u>	<u>1,320,383</u>
NONCURRENT:				
Compensated absences.....	101,844	10,752	112,596	-
Workers' compensation.....	-	-	-	420,000
Bonds and notes payable.....	<u>14,526,053</u>	<u>865,001</u>	<u>15,391,054</u>	<u>-</u>
Total noncurrent liabilities.....	<u>14,627,897</u>	<u>875,753</u>	<u>15,503,650</u>	<u>420,000</u>
TOTAL LIABILITIES.....	<u>17,034,798</u>	<u>1,061,227</u>	<u>18,096,025</u>	<u>1,740,383</u>
NET ASSETS				
Invested in capital assets, net of related debt.....	20,653,041	1,014,789	21,667,830	-
Unrestricted.....	<u>5,857,376</u>	<u>(258,578)</u>	<u>5,598,798</u>	<u>6,141,806</u>
TOTAL NET ASSETS.....	<u>\$ 26,510,417</u>	<u>\$ 756,211</u>	<u>\$ 27,266,628</u>	<u>\$ 6,141,806</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2007

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water & Sewer	Golf Course	Total	
OPERATING REVENUES:				
Employer contributions	\$ -	\$ -	\$ -	\$ 2,045,039
Charges for services	22,337,326	1,189,978	23,527,304	-
Intergovernmental.....	57,486	-	57,486	-
TOTAL OPERATING REVENUES	22,394,812	1,189,978	23,584,790	2,045,039
OPERATING EXPENSES:				
Cost of services and administration	19,054,630	889,324	19,943,954	-
Depreciation.....	443,818	78,099	521,917	-
Building insurance.....	-	-	-	150,000
Employee benefits	-	-	-	1,261,311
TOTAL OPERATING EXPENSES	19,498,448	967,423	20,465,871	1,411,311
OPERATING INCOME (LOSS).....	2,896,364	222,555	3,118,919	633,728
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	-	-	-	706,043
Interest expense.....	(531,331)	(38,858)	(570,189)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(531,331)	(38,858)	(570,189)	706,043
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	2,365,033	183,697	2,548,730	1,339,771
OPERATING TRANSFERS:				
Transfers out.....	(2,104,001)	(153,934)	(2,257,935)	-
CHANGE IN NET ASSETS.....	261,032	29,763	290,795	1,339,771
NET ASSETS AT BEGINNING OF YEAR.....	26,249,385	726,448	26,975,833	4,802,035
NET ASSETS AT END OF YEAR.....	\$ 26,510,417	\$ 756,211	\$ 27,266,628	\$ 6,141,806

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2007

	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.....	\$ 22,491,254	\$ 1,189,978	\$ 23,681,232	\$ -
Receipts from interfund services provided.....	-	-	-	2,045,039
Receipts from other governments.....	57,486	-	57,486	-
Payments to vendors.....	(17,161,570)	(517,913)	(17,679,483)	(1,567,928)
Payments to employees.....	(1,997,884)	(389,537)	(2,387,421)	-
NET CASH FROM OPERATING ACTIVITIES.....	3,389,286	282,528	3,671,814	477,111
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers out.....	(2,104,001)	(153,934)	(2,257,935)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the issuance of bonds and notes.....	-	150,000	150,000	-
Acquisition and construction of capital assets.....	(1,129,269)	-	(1,129,269)	-
Principal payments on bonds and notes.....	(2,199,458)	(153,552)	(2,353,010)	-
Interest expense.....	(532,996)	(38,915)	(571,911)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(3,861,723)	(42,467)	(3,904,190)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments.....	-	-	-	(621,635)
Investment income.....	-	-	-	706,043
NET CASH FROM INVESTING ACTIVITIES.....	-	-	-	84,408
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(2,576,438)	86,127	(2,490,311)	561,519
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	2,720,758	82,680	2,803,438	2,923,561
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 144,320	\$ 168,807	\$ 313,127	\$ 3,485,080
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ 2,896,364	\$ 222,555	\$ 3,118,919	\$ 633,728
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	443,818	78,099	521,917	-
Changes in assets and liabilities:				
Charges for services receivable.....	153,928	-	153,928	-
Internal balances.....	-	(25,000)	(25,000)	-
Prepaid expenses.....	(1,280)	1,055	(225)	-
Warrants payable.....	(102,156)	(4,898)	(107,054)	10,383
Accrued liabilities.....	-	-	-	150,000
Accrued compensated absences.....	(1,388)	10,717	9,329	-
Workers' compensation.....	-	-	-	(317,000)
Total adjustments.....	492,922	59,973	552,895	(156,617)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,389,286	\$ 282,528	\$ 3,671,814	\$ 477,111

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	Pension Trust Fund (as of December 31, 2006)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 1,726,318	\$ 1,303,496	\$ -
Investments.....	205,003,696	3,132,357	-
Interest and dividends.....	11,060	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	10,395,507	-	275,684
Due from other funds.....	-	231,376	-
TOTAL ASSETS.....	217,136,581	4,667,229	275,684
LIABILITIES			
Warrants payable.....	783,435	-	-
Accrued liabilities.....	-	282,496	-
Other liabilities.....	-	-	44,308
Due to other funds.....	-	-	231,376
TOTAL LIABILITIES.....	783,435	282,496	275,684
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ <u>216,353,146</u>	\$ <u>4,384,733</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2007

	Pension Trust Fund (as of December 31, 2006)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 10,239,000	\$ -
Employee.....	4,917,118	-
Private donations.....	-	50,542
Total contributions.....	15,156,118	50,542
Net investment income (loss):		
Net change in fair value of investments.....	21,788,774	-
Investment income.....	5,521,805	476,361
Total investment income (loss).....	27,310,579	476,361
Less: investment expense.....	(935,638)	-
Net investment income (loss).....	26,374,941	476,361
Intergovernmental.....	863,654	-
Transfers from other systems.....	424,681	-
TOTAL ADDITIONS.....	42,819,394	526,903
DEDUCTIONS:		
Administration.....	372,511	1,115
Transfers to other systems.....	724,106	-
Retirement benefits and refunds.....	19,061,026	-
Educational scholarships.....	-	161,754
TOTAL DEDUCTIONS.....	20,157,643	162,869
CHANGE IN NET ASSETS.....	22,661,751	364,034
NET ASSETS AT BEGINNING OF YEAR.....	193,691,395	4,020,699
NET ASSETS AT END OF YEAR.....	\$ 216,353,146	\$ 4,384,733

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

Blended Component Units – Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The following component unit is blended within the primary government:

In the Fiduciary Funds:

- (1) The Brookline Contributory Retirement System (the 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 System's participants and one member appointed by the other four Board members. The System is presented using the accrual basis of accounting and is reported as a Pension Trust Fund in the fiduciary fund financial statements.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The 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 System located at Brookline Town Hall.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

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

Government-Wide Financial Statements

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

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

Program revenues include the following:

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *Lawrence School and Longwood Playground Renovation Fund capital projects fund* is used to account for financial resources to expand and upgrade the school facilities and related playground.

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, 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 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

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

Intergovernmental

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

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

Loans

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

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

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

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

G. Restricted Assets

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

H. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

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

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

Governmental Fund Financial Statements

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

I. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

J. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

K. Deferred Revenue

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

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

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

Net assets have been “restricted for” the following:

“Loans” represents community development outstanding loans receivable balances.

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

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

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been “reserved for” the following:

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

“Loans” represents community development outstanding loans receivable balances.

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

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2008 operating budget.

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

N. Investment Income

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

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

O. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

P. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health and life insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health and life insurance is recognized by recording the employer's 75% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2007, this expense/expenditure totaled approximately \$5,969,000. There were 1,378 participants eligible to receive benefits at June 30, 2007.

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.

At fiscal year-end one individual fund deficit exists in the Capital Projects Fund due to the fact long-term bonds have not been issued to permanently fund the expenditures. The Town expects to fund this deficit by issuing permanent debt 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 Short-term Investments". The deposits and investments of the pension trust fund are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). 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 \$12,923,351 and the bank balance totaled \$17,311,713. Of the bank balance, \$640,375 was covered by Federal Depository Insurance and \$16,671,338 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2006, the carrying amount of deposits for the System totaled \$66,179 and the bank balance totaled \$784,355. The entire bank balance of \$784,355 was covered by Federal Depository Insurance.

Investments

As of June 30, 2007, the Town of Brookline had the following investments:

Investment Type	Fair Value	Maturity			
		Under 1 Year	1-5 Years	6-10 Years	Over 10 Years
<u>Debt Securities</u>					
United States Treasury.....	\$ 5,146,340	\$ 187,937	\$ 271,371	\$ 4,640,111	\$ 46,921
Federal National Mortgage Asso.....	156,078	148,213	-	5,046	2,819
Federal Home Loan Mortgage Corp...	81,829	-	81,829	-	-
Total Debt Securities.....	5,384,247	\$ 336,150	\$ 353,200	\$ 4,645,157	\$ 49,740
<u>Other Investments</u>					
Equity Securities.....	5,665,381				
Equity Mutual Funds.....	1,829,383				
Repurchase Agreements.....	8,871,284				
Money Market Mutual Funds.....	405,944				
MMDT.....	46,309,020				
Total Investments.....	\$ 68,465,259				

System investment balances at December 31, 2006:

Equity Security Mutual Funds.....	\$ 49,612,558
International Securities.....	27,566,160
PRIT Investments.....	100,359,850
Alternative Investments-Real Estate..	27,465,128
Money Market Mutual Funds.....	<u>1,660,139</u>
 Total Investments.....	 <u>\$ 206,663,835</u>

Custodial Credit Risk – 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 \$5,146,340 in U.S. Treasury Securities, \$156,078 in Federal national Mortgage Association, \$81,829 in Federal Home Loan Mortgage Corporation, \$5,665,381 in Equity Securities, the Town has custodial credit risk exposure of \$11,049,628 because the related securities are uninsured, unregistered and held by the counterparty.

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

Interest Rate Risk

Pursuant to Massachusetts Law, Chapter 34 of the acts of 2006, the Town’s formal investment policy limits the selection of investments to the prudent investor rule, which states that the trustee should exercise reasonable care, skill, and caution. The Town contracts with an investment manager who assists the Town in managing the investment exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town has adopted a formal policy related to credit risk. At June 30, 2007 the Town’s debt securities were rated as follows:

	Rated Debt Investments - Town's				Totals
	Quality Ratings	United States Treasury	Federal National Mortgage Asso.	Federal Home Loan Mortgage Corp.	
AAA.....	\$ 5,146,340	\$ 156,078	\$ 81,829	\$ 5,384,247	

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the 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 System’s investments \$27,566,160 in International Securities, the System has custodial credit risk exposure of \$27,566,160 because the related securities are uninsured, unregistered and held by the counterparty.

The System has an investment policy for custodial credit risk that states the 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 System will utilize extensive diversification to minimize company and industry specific risks while avoiding extreme levels of volatility that could adversely affect the Systems’ participants.

Interest Rate Risk

The System has a formal investment policy that establishes the objectives and constraints that govern the investment of the System’s assets. The 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 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.

NOTE 3 – RECEIVABLES

At June 30, 2007, 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:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes....	\$ 1,003,907	\$ -	\$ 1,003,907
Tax liens.....	882,450	-	882,450
Motor vehicle and other excise taxes.....	683,722	(471,043)	212,679
User fees.....	116,027	-	116,027
Departmental and other.....	6,082,681	(1,599,425)	4,483,256
Intergovernmental.....	36,802,090	-	36,802,090
Loans.....	258,844	-	258,844
Total.....	<u>\$ 45,829,721</u>	<u>\$ (2,070,468)</u>	<u>\$ 43,759,253</u>

At June 30, 2007, receivables for the water and sewer enterprise funds consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Water and sewer fees.....	<u>\$ 6,218,073</u>	<u>\$ -</u>	<u>\$ 6,218,073</u>

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

Type:	General Fund	Other Governmental Funds	Total
Real estate and personal property taxes....	\$ 407,659	\$ -	\$ 407,659
Real estate tax deferrals.....	205,847	-	205,847
Tax liens.....	794,060	-	794,060
Motor vehicle and other excise taxes.....	212,678	-	212,678
User fees.....	124,351	-	124,351
Departmental and other.....	4,626,902	137,920	4,764,822
Intergovernmental.....	32,608,600	4,382,661	36,991,261
Total.....	\$ 38,980,097	\$ 4,520,581	\$ 43,500,678

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 79,727	\$ -	\$ -	\$ 79,727
Construction in progress.....	3,030,328	722,984	(2,951,534)	801,778
Total capital assets not being depreciated...	3,110,055	722,984	(2,951,534)	881,505
<u>Capital assets being depreciated:</u>				
Land improvements.....	16,218,440	1,405,899	-	17,624,339
Buildings.....	210,641,814	7,987,875	-	218,629,689
Machinery and equipment.....	27,059,094	2,437,690	(1,122,252)	28,374,532
Infrastructure.....	39,979,122	1,378,123	(1,719,776)	39,637,469
Total capital assets being depreciated.....	293,898,470	13,209,587	(2,842,028)	304,266,029
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(6,523,363)	(659,360)	-	(7,182,723)
Buildings.....	(68,870,605)	(5,708,343)	-	(74,578,948)
Machinery and equipment.....	(18,065,869)	(2,614,473)	1,079,952	(19,600,390)
Infrastructure.....	(25,515,601)	(1,438,011)	1,719,776	(25,233,836)
Total accumulated depreciation.....	(118,975,438)	(10,420,187)	2,799,728	(126,595,897)
Total governmental activities capital assets, net.....	\$ 178,033,087	\$ 3,512,384	\$ (2,993,834)	\$ 178,551,637

	Beginning Balance	Increases	Decreases	Ending Balance
Water & Sewer Activities:				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 201,230	\$ -	\$ -	\$ 201,230
Buildings.....	2,459,735	-	(457,185)	2,002,550
Machinery and equipment.....	2,384,623	189,801	-	2,574,424
Infrastructure.....	46,591,137	939,468	-	47,530,605
Total capital assets being depreciated.....	<u>51,636,725</u>	<u>1,129,269</u>	<u>(457,185)</u>	<u>52,308,809</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(27,518)	(5,679)	-	(33,197)
Buildings.....	(758,676)	(69,093)	457,185	(370,584)
Machinery and equipment.....	(1,434,807)	(238,598)	-	(1,673,405)
Infrastructure.....	<u>(12,921,239)</u>	<u>(130,448)</u>	<u>-</u>	<u>(13,051,687)</u>
Total accumulated depreciation.....	<u>(15,142,240)</u>	<u>(443,818)</u>	<u>457,185</u>	<u>(15,128,873)</u>
Total capital assets being depreciated, net.....	<u>\$ 36,494,485</u>	<u>\$ 685,451</u>	<u>\$ -</u>	<u>\$ 37,179,936</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets being depreciated:</u>				
Land improvements.....	\$ 917,588	\$ -	\$ -	\$ 917,588
Buildings.....	1,558,915	-	-	1,558,915
Machinery and equipment.....	71,418	-	(1,843)	69,575
Total capital assets being depreciated.....	<u>2,547,921</u>	<u>-</u>	<u>(1,843)</u>	<u>2,546,078</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(167,402)	(30,586)	-	(197,988)
Buildings.....	(268,751)	(39,263)	-	(308,014)
Machinery and equipment.....	<u>(10,170)</u>	<u>(8,250)</u>	<u>1,843</u>	<u>(16,577)</u>
Total accumulated depreciation.....	<u>(446,323)</u>	<u>(78,099)</u>	<u>1,843</u>	<u>(522,579)</u>
Total capital assets being depreciated, net.....	<u>\$ 2,101,598</u>	<u>\$ (78,099)</u>	<u>\$ -</u>	<u>\$ 2,023,499</u>

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

Governmental Activities:

General government.....	\$ 209,771
Public safety.....	1,698,546
Education.....	4,292,024
Public works.....	3,375,715
Human services.....	685,582
Leisure services.....	<u>158,549</u>

Total depreciation expense - governmental activities..... \$ 10,420,187

Business-Type Activities:

Water and Sewer.....	\$ 443,818
Golf.....	<u>78,099</u>

Total depreciation expense - business-type activities..... \$ 521,917

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2007, are summarized as follows:

Operating Transfers Out:	Operating Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	1,716,999	\$ 1,716,999
Nonmajor Governmental Funds.....	2,258,712	-	2,258,712
Water & Sewer Enterprise Fund.....	2,104,001	-	2,104,001
Golf Enterprise Fund.....	<u>153,934</u>	<u>-</u>	<u>153,934</u>
	<u>\$ 4,516,647</u>	<u>\$ 1,716,999</u>	<u>\$ 6,233,646</u>

Transfers represent amounts voted to fund the fiscal year 2007 operating budget.

NOTE 6 - CAPITAL LEASES

The Town has entered into several lease agreements to finance the acquisition of equipment with an original cost of \$1,438,002. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2007, are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2008.....	130,005
Less: amounts representing interest.....	<u>(4,019)</u>
Present value of minimum lease payments.....	<u>\$ 125,986</u>

NOTE 7 – SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2007, is as follows:

<u>Type</u>	<u>Purpose</u>	<u>Rate (%)</u>	<u>Due Date</u>	<u>Balance at June 30, 2006</u>	<u>Renewed/ Issued</u>	<u>Retired/ Redeemed</u>	<u>Balance at June 30, 2007</u>
BAN	School Remodeling-Lawrence.....	4.00	05/17/07	\$ -	\$ 766,000	\$ 766,000	\$ -
BAN	School Remodeling-Lawrence.....	4.00	07/27/06	<u>2,675,000</u>	<u>-</u>	<u>2,675,000</u>	<u>-</u>
Total.....				<u>\$ 2,675,000</u>	<u>\$ 766,000</u>	<u>\$ 3,441,000</u>	<u>\$ -</u>

NOTE 8 - LONG-TERM DEBT

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

In previous fiscal years, certain general obligation bonds 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 Town's basic financial statements. At June 30, 2007, approximately \$1,900,000 of Governmental and \$1,510,000 of Enterprise Fund bonds outstanding from the advance refunding are considered defeased.

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

Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2006	Issued	Redeemed	Outstanding at June 30, 2007
<i>Inside Debt Limit</i>					
Schools.....	2.59-5.91	\$ 23,761,968	\$ 766,000	\$ 3,103,234	\$ 21,424,734
General Government.....	3.22-5.28	25,589,177	1,600,000	2,386,343	24,802,834
Athletic and recreational facilities.....	3.94-4.94	269,000	-	124,000	145,000
Sub-total.....		49,620,145	2,366,000	5,613,577	46,372,568
<i>Outside Debt Limit</i>					
Schools.....	5.33 - 5.35	35,150,000	-	1,730,000	33,420,000
Total Government Bonds and Notes Payable.....		84,770,145	2,366,000	7,343,577	79,792,568

Enterprise Funds

<i>Inside Debt Limit</i>					
Golf Course Enterprise Fund.....	3.19-3.90	1,012,262	150,000	153,552	1,008,710
Water Enterprise Fund.....	3.90-6.63	10,762,592	-	1,277,871	9,484,721
Sewer Enterprise Fund.....	3.90-5.28	7,963,761	-	921,587	7,042,174
Total Enterprise Bonds and Notes Payable.....		19,738,615	150,000	2,353,010	17,535,605
Total Bonds and Notes Payable.....		\$ 104,508,760	\$ 2,516,000	\$ 9,696,587	\$ 97,328,173

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008..... \$	7,290,036 \$	3,618,820 \$	10,908,856
2009.....	7,092,308	3,324,637	10,416,945
2010.....	7,166,177	3,039,477	10,205,654
2011.....	6,894,999	2,743,834	9,638,833
2012.....	6,616,239	2,459,361	9,075,600
2013.....	6,236,633	2,178,263	8,414,896
2014.....	5,595,588	1,886,418	7,482,006
2015.....	5,152,794	1,615,389	6,768,183
2016.....	4,892,794	1,353,320	6,246,114
2017.....	4,825,000	1,112,376	5,937,376
2018.....	4,555,000	859,050	5,414,050
2019.....	4,540,000	631,026	5,171,026
2020.....	4,720,000	402,430	5,122,430
2021.....	1,110,000	175,590	1,285,590
2022.....	1,110,000	130,554	1,240,554
2023.....	600,000	84,128	684,128
2024.....	595,000	59,082	654,082
2025.....	595,000	33,897	628,897
2026.....	205,000	8,712	213,712
Totals..... \$	<u>79,792,568</u> \$	<u>25,716,362</u> \$	<u>105,508,930</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008..... \$	2,144,551 \$	785,351 \$	2,929,902
2009.....	2,001,279	707,114	2,708,393
2010.....	1,866,323	631,551	2,497,874
2011.....	1,862,501	553,282	2,415,783
2012.....	1,623,761	475,441	2,099,202
2013.....	1,563,366	402,388	1,965,754
2014.....	1,524,412	335,886	1,860,298
2015.....	1,217,206	253,820	1,471,026
2016.....	1,217,206	189,304	1,406,510
2017.....	965,000	126,820	1,091,820
2018.....	615,000	70,060	685,060
2019.....	395,000	43,964	438,964
2020.....	395,000	24,724	419,724
2021.....	145,000	5,800	150,800
Totals..... \$	<u>17,535,605</u> \$	<u>4,605,505</u> \$	<u>22,141,110</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan. The loan portion is payable in five equal annual installments. At June 30, 2007, the outstanding principal amount of this loan totaled \$262,174.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the School Building Assistance Bureau, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2007, \$3,442,794 of such assistance was received for reimbursement. Approximately \$42,533,000 will be received in future fiscal years. Of this amount, \$9,924,000 represents reimbursement of long-term interest costs, and approximately \$32,609,000 represents reimbursement of approved construction costs. Accordingly, a \$32,608,600 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2007, the Town had the following authorized and unissued debt:

Purpose	Amount
Putterham Golf Course.....	\$ 1,590,000
Wastewater Systems.....	6,224,065
Storm Drain Improvements.....	500,000
Muddy River Project.....	745,000
Landfill.....	2,000,000
Town Hall.....	13,800,000
Fisher Hill.....	1,350,000
Water Tank.....	250,000
Total.....	<u>\$ 26,459,065</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2007, the following changes occurred in long-term liabilities:

Governmental Funds

	Balance June 30, 2006	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2007	Current Portion
Long-Term Bonds and Notes.....	\$ 84,770,145	\$ 2,366,000	\$ (7,343,577)	\$ -	\$ 79,792,568	\$ 7,290,036
Workers' Compensation.....	1,897,000	-	-	(317,000)	1,580,000	1,160,000
Compensated Absences.....	9,567,709	-	-	(470,128)	9,097,581	5,526,658
Landfill Closure.....	12,051,000	-	-	539,000	12,590,000	-
Total.....	<u>\$ 108,285,854</u>	<u>\$ 2,366,000</u>	<u>\$ (7,343,577)</u>	<u>\$ (248,128)</u>	<u>\$ 103,060,149</u>	<u>\$ 13,976,694</u>

Business-Type Activities

	June 30, 2006	Notes Issued	Notes Redeemed	Increase (Decrease)	June 30, 2007	Current Portion
Long-Term Bonds and Notes.....	\$ 19,738,615	\$ 150,000	\$ (2,353,010)	\$ -	\$ 17,535,605	\$ 2,144,551
Compensated Absences.....	386,081	-	-	9,329	395,410	282,814
Total.....	\$ 20,124,696	\$ 150,000	\$ (2,353,010)	\$ 9,329	\$ 17,931,015	\$ 2,427,365

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, \$1,580,000 of internal service funds accrued liabilities is included above. Except for the amounts related to the internal service funds and a portion of the bonds, the governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 9 – RISK FINANCING

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

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

(a) *Workers' Compensation*

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The Town purchases individual stop loss insurance for claims in excess of the coverage provided by the Town in the amount of \$780,000. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2007, the amount of the liability for workers' compensation claims totaled \$1,580,000. Changes in the reported liability since July 1, 2006, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2006.....	\$ 2,108,000	\$ 1,008,693	\$ (1,219,693)	1,897,000
Fiscal Year 2007.....	1,897,000	817,597	(1,134,597)	1,580,000

NOTE 10 - PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Brookline Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$11,024,000 for the fiscal year ended June 30, 2007, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

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. 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 System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at Brookline Town Hall, 333 Washington Street, Brookline, Massachusetts 02146.

At December 31, 2006, the System's membership consists of the following:

Active members.....	1778
Inactive members.....	760
Disabled members.....	191
Retirees and beneficiaries currently receiving benefits.....	<u>636</u>
Total.....	<u><u>3365</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute approximately 97%, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town contributions to the System for the fiscal years ended June 30, 2007, 2006, and 2005 were approximately \$9,855,000, \$9,600,000, and \$9,200,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2006, the Town did not have a net pension obligation. The required contribution was determined as part of an actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.25% investment rate of return and projected salary increases of 5% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2007 was 16 years.

Schedule of Funding Progress (Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/06	\$ 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%
1/1/98	121,604,190	192,305,540	70,701,350	63.2%	40,150,666	176.1%

Funding progress is reported based on the biennial actuarial valuation performed by the 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 System. The general fund expenditure for fiscal year 2007 totaled approximately \$275,000.

NOTE 11 - 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 \$12,590,000 as the estimate of the landfill closure liability at June 30, 2007. This amount is based on estimates of what it would cost to perform all future closure and post closure care in fiscal year 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – 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, 2007 the outstanding loan balance was \$375,000.

NOTE 13 - COMMITMENTS

The Town has entered into a long-term contract with Arthur Schofield, Inc. to direct the acceptable waste it collects to a transfer station. The Town is charged a flat rate per ton that is subject to increase annually. There are no minimum tonnage requirements that the Town must comply with.

The Town has entered into a long-term contract with Browning Ferris Industries to provide recycling services. The Town is charged a flat rate of \$73.10 per ton of acceptable waste collected and hauled. There are no minimum tonnage requirements that the Town must comply with.

The School Department has entered into two agreements with Eastern Bus Company and First Student, Inc. to provide for regular transportation. The contracts bear an annual cost of approximately \$278,000 and \$343,500, respectively. The regular school transportation contracts expire on August 31, 2008.

The School Department has also entered into an agreement with Y.C.N. Transportation, Inc. and Transcomm, Inc. to provide transportation of its special needs students. The contracts bear an annual cost of approximately \$531,700 and \$163,600, respectively. The special needs student transportation contracts expire on August 31, 2008.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$26,000,000 for the remodeling/renovations of the Lawrence school and Town Hall, the upgrading and replacing of water meters, storm drain improvements, and renovations of the Putterham golf course.

NOTE 14 - 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, at June 30, 2007, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2007.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2007, the following GASB pronouncements were implemented:

- The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2007. The basic financial statements were not impacted by this GASB.
- The GASB issued Statement #48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which is required to be implemented in fiscal year 2008. Management has elected to implement this GASB early. The basic financial statements were not impacted by this GASB.
- The GASB issued Statement #49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is required to be implemented in fiscal year 2008. Management has elected to implement this GASB early. The basic financial statements were not impacted by this GASB.
- The GASB issued Statement #51, *Accounting and Financial Reporting for Intangible Assets*, which is required to be implemented in fiscal year 2010. Management has elected to implement this GASB early. The basic financial statements were not impacted by this GASB.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which is required to be implemented in fiscal year 2008. Management expects that this pronouncement will require additional disclosure and impact the basic financial statements.
- The GASB issued Statement #50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27, which is required to be implemented in fiscal year 2008. This GASB will change the disclosures related to pensions.
- The GASB issued Statement #52, Land and Other Real Estate Held as Investments by Endowments, which is required to be implemented in fiscal year 2009. The standards in this statement require all investments in land and real estate in permanent and similar funds to be reported at fair value. Management does not expect this pronouncement to impact the basic financial statements.

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Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2007

	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.....	\$ -	\$ 128,624,942	\$ 128,624,942	\$ 128,624,942
Motor vehicle and other excise taxes.....	-	5,250,000	5,250,000	5,250,000
Hotel/motel tax.....	-	670,000	670,000	670,000
Charges for services.....	-	4,000,000	4,000,000	3,916,300
Penalties and interest on taxes.....	-	310,000	310,000	309,500
Payments in lieu of taxes.....	-	679,300	679,300	679,300
Licenses and permits.....	-	2,951,000	2,951,000	2,766,499
Fines and forfeitures.....	-	4,000,000	4,000,000	3,923,200
Intergovernmental.....	-	17,903,366	17,903,366	18,298,366
Departmental and other.....	-	310,000	310,000	260,500
Investment income.....	-	2,306,929	2,306,929	2,306,929
TOTAL REVENUES.....	-	167,005,537	167,005,537	167,005,536
EXPENDITURES:				
Current:				
General government.....	845,680	11,374,162	12,219,842	11,380,592
Public safety.....	4,520,748	34,942,240	39,462,988	40,264,668
Education.....	254,078	59,836,680	60,090,758	60,684,863
Public works.....	10,480,273	14,986,368	25,466,641	24,157,082
Human services.....	28,659	2,070,304	2,098,963	2,181,993
Leisure services.....	22,000	4,286,069	4,308,069	4,591,152
Pension benefits.....	-	10,165,009	10,165,009	10,165,009
Employee benefits.....	49,039	22,218,148	22,267,187	22,347,645
State and county charges.....	-	5,221,479	5,221,479	5,221,479
Debt service:				
Principal.....	-	9,613,087	9,613,087	9,613,087
Interest.....	-	4,783,534	4,783,534	4,783,534
TOTAL EXPENDITURES.....	16,200,477	179,497,080	195,697,557	195,391,104
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(16,200,477)	(12,491,543)	(28,692,020)	(28,385,568)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds, net of expenditures.....	-	-	-	-
Sale of capital assets.....	-	-	-	-
Transfers in.....	-	-	-	4,424,951
Transfers out.....	-	(22,248)	(22,248)	(1,716,999)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(22,248)	(22,248)	2,707,952
NET CHANGE IN FUND BALANCE.....	(16,200,477)	(12,513,791)	(28,714,268)	(25,677,616)
BUDGETARY FUND BALANCE, Beginning of year.....	-	36,205,286	35,636,039	35,636,039
BUDGETARY FUND BALANCE, End of year.....	\$ (16,200,477)	\$ 23,691,495	\$ 6,921,771	\$ 9,958,423

See notes to basic financial statements.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	128,971,680	\$ -	\$ 346,738
	4,691,252	-	(558,748)
	799,339	-	129,339
	4,881,463	-	965,163
	428,659	-	119,159
	774,270	-	94,970
	3,413,839	-	647,340
	4,020,887	-	97,687
	18,248,642	-	(49,724)
	578,128	-	317,628
	2,782,461	-	475,532
	<u>169,590,620</u>	<u>-</u>	<u>2,585,084</u>
	8,967,031	823,558	1,590,003
	35,252,956	4,699,871	311,841
	60,298,801	372,901	13,161
	16,315,222	7,556,325	285,535
	2,085,448	57,049	39,496
	4,389,318	165,750	36,084
	9,909,546	-	255,463
	22,291,764	2,500	53,381
	5,375,086	-	(153,607)
	7,343,577	-	2,269,510
	4,107,806	-	675,728
	<u>176,336,555</u>	<u>13,677,954</u>	<u>5,376,595</u>
	<u>(6,745,935)</u>	<u>(13,677,954)</u>	<u>7,961,679</u>
	1,460	-	1,460
	566,855	-	566,855
	4,516,647	-	91,696
	<u>(1,716,999)</u>	<u>-</u>	<u>-</u>
	<u>3,367,963</u>	<u>-</u>	<u>660,011</u>
	(3,377,972)	(13,677,954)	8,621,690
	35,636,039	-	-
\$	<u>32,258,067</u>	<u>(13,677,954)</u>	<u>8,621,690</u>

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 2007 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$195,719,000 in appropriations and other amounts to be raised. During fiscal year 2007, Town Meeting also approved supplemental appropriations totaling \$1,400,000.

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

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2007, is presented below:

Excess of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ (3,377,972)
 <u>Basis of accounting differences:</u>	
Recognition of expenditures on modified accrual basis.....	136,369
Net change in recording 60-day receipts accrual.....	(545,356)
Tax refunds payable.....	<u>1,123,000</u>
 Excess of revenues and other financing sources (uses) over expenditures - GAAP basis.....	 \$ <u><u>(2,663,959)</u></u>

C. Appropriation Deficits

During fiscal year 2007, expenditures exceeded budgeted appropriations for state and county. This deficit will be funded through tax levy and available funds in fiscal year 2008.

TOWN OF BROOKLINE, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2007

TOWN OF BROOKLINE, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
FISCAL YEAR ENDED JUNE 30, 2007

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the 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, 2007, which collectively comprise Town's basic financial statements and have issued our report thereon dated December 4, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Brookline's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Brookline's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Brookline's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Town of Brookline's financial statements that is more than inconsequential will not be prevented or detected by Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Town of Brookline's internal control.

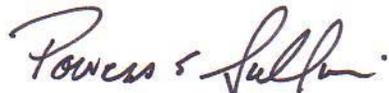
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Brookline's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Town of Brookline in a separate letter dated December 4, 2007.

This report is intended solely for the information and use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Powers & Sullivan".

December 4, 2007



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

Compliance

We have audited the compliance of the Town of Brookline, Massachusetts, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. The Town of Brookline's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Brookline's management. Our responsibility is to express an opinion on the Town of Brookline's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Brookline's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Brookline's compliance with those requirements.

In our opinion, the Town of Brookline, Massachusetts, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

The management of the Town of Brookline, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Brookline's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Brookline's internal control over compliance.

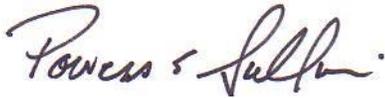
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of

compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Powers & Sullivan".

December 4, 2007



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INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Brookline, Massachusetts, as of and for the fiscal year ended June 30, 2007, (except for the Brookline Contributory Retirement System which is as of and for the year ended December 31, 2006), and have issued our report thereon dated December 4, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management of the Town of Brookline, Massachusetts, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

December 4, 2007

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through State Department of Education:</u>		
Food Distribution	10.550	\$ 48,939
School Breakfast Program	10.553	53,781
National School Lunch Program	10.555	<u>263,811</u>
TOTAL AGRICULTURE		<u>366,531</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Passed through State Office for Communities and Development:</u>		
Community Development Block Grants/Entitlement Grants	14.218	2,662,980
Home Investment Partnership Program	14.239	<u>39,921</u>
TOTAL HOUSING AND URBAN DEVELOPMENT		<u>2,702,901</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Passed through State Department of Justice:</u>		
Byrne Formula Grant Program	16.579	17,637
Violence Against Women Formula Grants	16.588	<u>18,777</u>
TOTAL JUSTICE		<u>36,414</u>
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department of Education:</u>		
Title I Grants to Local Educational Agencies	84.010	457,482
Special Education Grants to States	84.027	1,651,290
Vocational Education Basic Grants to States	84.048	55,990
Special Education Preschool Grants	84.173	28,502
Safe and Drug-Free Schools and Communities State Grants	84.186	25,816
Fund for Improvement of Education	84.215	10,766
TRIO McNair Post-Baccalaureate Achievement	84.217	12,411
Twenty-First Century Community Learning Centers	84.287	85,766
State Grants for Innovative Programs	84.298	4,799
Educational Technology State Grants	84.318	5,392
English Language Acquisition Grants	84.365	84,320
Improving State Quality State Grants	84.367	186,388
Project Focus	84.Ukn	<u>13,013</u>
TOTAL EDUCATION		<u>2,621,935</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
<u>Passed through Massachusetts Department of Public Health:</u>		
Public Health and Social Services Emergency Fund	93.003	32,968
Medical Reserve Corp Small Grant Program	93.008	11,926
Drug-Free Communities Support Grant Program	93.276	<u>94,517</u>
TOTAL HEALTH AND HUMAN SERVICES		<u>139,411</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY		
<u>Passed through Massachusetts Emergency Management Agency:</u>		
Urban Area Security Initiative	97.008	<u>99,797</u>
TOTAL		<u>\$ 5,966,989</u>

See notes to schedule of expenditures of federal awards.

Note 1 - Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Brookline, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

Note 2 - Significant Accounting Policies

The accounting and reporting policies of the Town of Brookline, Massachusetts, are set forth below:

- (a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.
- (b) School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.

Note 3 - Program Clusters

In accordance with Subpart A §.105 of OMB Circular No. A-133, Audits of States, Local Governments and Non Profit Organizations, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Education Cluster	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Town of Brookline, Massachusetts.
2. No significant deficiencies relating to the audit of the basic financial statements are reported in the Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of the Town of Brookline, Massachusetts, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Town of Brookline, Massachusetts, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Brookline, Massachusetts.
7. The programs tested as major programs include:

<u>Program Title</u>	<u>CFDA Number</u>
Title I Grants to Local Educational Agencies	84.010
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Brookline, Massachusetts, was determined to be a low-risk auditee.

B. Findings-Financial Statements Audit

None

C. Findings and Questioned Costs-Major Federal Award Program Audit

None

D. Prior Year Audit Findings and Questioned Costs

None

TOWN OF BROOKLINE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2007



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To the Honorable Board of Selectmen
Town of Brookline, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Brookline as of and for the fiscal year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A control deficiency exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management of the Town of Brookline, and is not intended to be and should not be used by anyone other than these specified parties.

December 4, 2007

TOWN OF BROOKLINE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2007

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Prior Year Comments

SCHOOL LUNCH FUND

Prior Comment

At the end of fiscal year 2006 the school lunch fund has a deficit balance of approximately \$432,000 which did not change significantly from the \$433,000 deficit at the end of fiscal year 2005. The School had indicated in the FY2004 management letter response that the deficit is expected to be reduced by restructuring the program and increasing revenues.

This deficit has existed for several years and does not appear as if a permanent solution to fund this deficit has been implemented. This represents a situation in which the Town's free cash is adversely affected by the amount of the deficit along with understating the special revenue fund balances and overstating the general fund's fund balance for financial statement reporting purposes.

We have recommended the deficit be permanent funded and that school management develop a business plan so that each fiscal year's expenditures are funded by current revenues that if a deficit exists at fiscal year end that the general fund school appropriation subsidize the deficit.

Current Status – Partially Resolved. The School Department has made progress at reducing the deficit and as of June 30, 2007 the deficit totaled \$325,000.

Management Response

The School Department will continue to implement the current plan to reduce the School Lunch fund balance deficit over time. At year end FY07 the department applied \$107K to reduce the deficit, in addition to operating the program at break even performance in FY07. Our goal remains to achieve a break even performance annually, with an additional commitment to deficit reduction.

CHAPTER 90 HIGHWAY FUND

Prior Comment

Each fiscal year the Town transfers the approved allotment of Chapter 90 funds to the General Fund from the Chapter 90 Special Revenue Fund. This transfer creates a reserved surplus in the General Fund and a deficit in the Chapter 90 Fund. The expenditures are recorded in the General Fund and the restricted fund balance is reduced. When the reimbursement revenues are received they are recorded in the Chapter 90 Fund which reduces the deficit. Under this method of accounting the fund balance in the Chapter 90 fund should be zero or be equal to the outstanding allotment receivable.

The Chapter 90 Fund is reporting a cash deficit of approximately \$1,026,000 that should equal the remaining allotment receivable. However the allotment receivable in the Chapter 90 fund and the remaining allotment payable to the Town as reported by the state do not agree. Therefore the fund has not been fully reconciled at year end.

Based on the accounting methodology used by the Town this would indicate an error in posting revenue, transfers, expenses or the allotment receivable has occurred.

These unreconciled balances could cause a situation in which both the General Fund and Chapter 90 fund are reporting inaccurate fund balances.

We recommended that the Comptroller's Office and the Engineer's Office reconcile the Chapter 90 Funds records to the state report and continue the process on at least a quarterly basis.

Current Status – Partially Resolved. During fiscal year 2007 the Comptrollers Office reported all activity related to Chapter 90 in a special revenue fund. However, at year end the fund had a surplus of approximately \$503,000. The surplus could be the result of expenditures for Chapter 90 being reported in one fund while the reimbursements are reported in another. Management needs to perform a reconciliation of this fund to determine the nature of the surplus and institute monthly reconciliation procedures on a go forward basis.

Management Response

The Comptroller's Office is working with DPW to determine the nature of the surplus. Members of DPW and the Comptroller's Office will meet quarterly to reconcile the Chapter 90 balances to the state's totals.

CAPITAL ASSET ACCOUNTING AND REPORTING

Prior Comment

Since fiscal year 2002, the Town has maintained its capital assets in accordance with the requirements of GASB Statement #34 using the MUNIS fixed asset module to capture and record capital expenditures. We believe the Town needs to further enhance its current practices for identifying and recording capital assets.

Right now assets are added to MUNIS when an individual invoice is paid and, every time an invoice is paid, MUNIS treats that expenditure as a new asset acquisition. So, what is in fact the acquisition of a single capital asset (i.e. a building or piece of equipment) is multiplied based on the number of payments made for its acquisition or construction. As a result, the Town has listed approximately 3,800 assets that do not meet the Town's capitalization threshold of \$15,000. The vast majority of these additions relate to the machinery & equipment, which, at year end, represented about 5% of the total capital assets of the Town.

A more streamlined process related to recognizing and recording this class of assets would significantly reduce the time spent on capital assets each year.

We recommended that the Town re-evaluate the way it maintains its capital asset records. Under the process noted above, we believe the cost of the resources expended exceeds the benefits derived. A more economical process should be developed that limits the number of assets recognized. The process should be geared to reporting the capital assets in compliance with the financial statements and footnote disclosure.

Current Status - Partially Resolved. The Town has completed the process of compiling their fixed assets in a database. The next step is developing reports that generate the information necessary to complete the financial statements and the footnotes. The reports would report beginning balance, additions and deletions along with the required depreciation by asset type and department.

Management Response

We are currently testing a series of reports against the 2007 fixed asset data – one set would report assets and activity by asset class; the second set would report the same data by financial statement department groups.

Current Year Comments

GENERAL LEDGER MAINTENANCE

Comment

We noted that there are liability accounts and performance bond agency accounts with balances that have not changed from past fiscal years. It is possible that the liability has been liquidated but that balance sheet account was not closed out. If this is the case, then the elimination of the liability would result in an increase in the Town's free cash.

Recommendation

We recommend that the Comptroller's Office review all other liability and agency accounts and determine the nature and legitimacy of each account. We also recommend that reconciliation procedures be implemented on these accounts on a quarterly basis.

Management Response

The Comptroller's Office is meeting with related departments to review the current status of liability and agency accounts that have not seen activity in more than a year. Adjustments will be made to the general ledger in the new year as appropriate.

POLICE DETAIL RECEIVABLES

Comment

Currently there are no formal reconciliation procedure between the Police Department and the Comptroller's Office for police detail receivables. The summary outstanding balance reported in the general ledger should be reconciled each month to the detail maintained by the Police Department. It is important to maintain an accurate receivable balance and detail listing so the Police Department can track down delinquent vendors prior to providing any further details. Also, by maintaining an accurate receivable listing, the Town can minimize the possibility of creating a permanent deficit that ultimately would have to be funded by the general fund.

Recommendation

We recommend that the Police Department and the Comptroller's Office reconcile the police detail balance and general ledger activity on a monthly basis.

Management Response

The Comptroller's Office is working with public safety to develop a series of reports that will be sent to the Comptroller's Office on a regular basis showing outstanding receivables, which will then be reconciled to the general ledger at each month's end.

PERFORMANCE DEPOSITS

Comment

The planning department receives deposits from developers as performance bonds on building projects. The deposits are placed into passbook or other bank accounts, in which the Treasurer and the developer have signing authority. When a building project is completed and the developer has satisfactorily fulfilled his obligation, or as phases are completed, the Planning Board may vote to release funds to the developer. If the developer does not complete a project satisfactorily, the Planning Board may vote to use the funds in the account to complete the project or compensate the Town for the insufficient work.

We noted that a balance of approximately \$112,000 in planning board deposits has remained unchanged on the general ledger for several fiscal years. This may be a situation in which the funds have been disbursed back to the contractor but the liability was never liquidated.

We also noted that there is no reconciliation procedure between the Treasurer, Comptroller and the Planning Board for these accounts.

Recommendation

We recommend that the Treasurer, Comptroller and the Planning Board reconcile activity and outstanding balances on at least a quarterly basis.

Management Response

The Town agrees with the recommendation of the Auditors. There are three accounts that currently make up the amount of approximately \$112,000, that are associated with the Building Department and Engineering Division of the Department of Public Works. There have been only four transactions in these accounts since July 1, 2001. We will review these transactions to determine if the funds are owed to the contractors or, through failure to perform the items listed in the contract, the money can be claimed by the Town.

Most of the transactions which occurred prior to July 1, 2001, in fact occurred between July 1, 1991 and June 30, 1993. It is therefore impossible to determine if said funds are owed to a contractor. However, it is probable that the funds can be claimed by the Town for lack of performance, as contractors would have demanded said funds if they believed that they had performed the duties of the contract. Therefore, the Town will deposit funds that can not be determined to have an outstanding liability, into the general fund.

The Comptroller and Finance Director will establish protocol for reconciling and controlling future transactions.

Informational Comments

FRAUD RISK ASSESSMENT

Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

DEVELOP WRITTEN DISASTER RECOVERY PROCEDURES

Comment

The Town does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities.

Recommendation

We recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.