

TOWN OF BERLIN, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Berlin, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Massachusetts, as of and for the fiscal year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Berlin, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Massachusetts, as of June 30, 2007, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2008, on our consideration of the Town of Berlin, Massachusetts' internal control over financial reporting and on 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 considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (located on pages 4 through 12) and budgetary comparison information for the general fund (located on pages 37 through 40) are not a required part of the basic financial statements but are 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.

Ball, T. & Company, LLC

January 8, 2008

Management's Discussion and Analysis

As management of the Town of Berlin, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$16,506,273 (net assets). Of this amount, \$5,184,711 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$650,927.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$4,610,212, an increase of \$407,065 in comparison with the prior year. Approximately \$3,648,000 represents unreserved fund balance.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$923,819, or 10.9 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$706,617 during the fiscal year; no new debt was issued.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

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

The **statement of net assets** presents information on all of the Town's non-fiduciary 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 of the Town 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, repayment of long-term debt, etc.).

The government-wide financial statements present functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest).

The government-wide financial statements can be found on pages 14 - 15 of this report.

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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. 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 funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 21 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, stabilization (special revenue), and conservation (special revenue) funds, each of which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 16 - 19 of this report.

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 statements because the resources of those funds are not available to support the Town's programs. The accounting used for fiduciary funds is similar to that used for the government-wide financial statements.

The fiduciary funds provide separate information for the Town's agency funds. Agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption "agency funds".

The basic fiduciary fund financial statement can be found on page 20 of this report.

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. The notes to the financial statements can be found on pages 21 - 36 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the budget comparison for the general fund. Such information can be located on pages 38-40 of this report.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$16,506,273 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>	
	2007	2006
Assets		
Current assets.....	\$ 5,736,309	\$ 5,402,862
Noncurrent assets (excluding capital assets).....	4,686,747	5,076,630
Capital assets (net).....	13,202,025	13,311,900
Total assets.....	23,625,081	23,791,392
Liabilities		
Current liabilities (excluding debt).....	460,671	571,292
Current debt.....	706,617	706,617
Noncurrent debt.....	5,951,520	6,658,137
Total liabilities.....	7,118,808	7,936,046
Net Assets		
Invested in capital assets (net of related debt).....	10,557,092	10,297,298
Restricted.....	764,470	865,835
Unrestricted.....	5,184,711	4,692,213
Total net assets.....	\$ 16,506,273	\$ 15,855,346

The largest portion of the Town's net assets (64.0%) reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used 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 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.

An additional portion of the Town's net assets (4.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (31.4% or \$5,184,711) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net assets.

Changes in Net Assets

The Town's total net assets increased by \$650,927 during the current fiscal year and are summarized as follows:

	<i>Governmental Activities</i>	
	2007	2006
Revenues		
<i>Program Revenues:</i>		
Charges for services.....	\$ 440,248	\$ 430,587
Operating grants and contributions.....	1,488,570	1,314,389
Capital grants and contributions.....	287,101	1,952,039
<i>General Revenues:</i>		
Real estate, personal property taxes and tax liens.....	6,315,578	6,166,883
Motor vehicle and other excise taxes.....	337,232	380,780
Penalties and interest on taxes.....	43,850	41,269
Payments in lieu of taxes.....	37,751	37,751
Grants and contributions not restricted to specific programs.....	285,359	236,015
Unrestricted investment income.....	145,764	101,358
Total revenues.....	9,381,453	10,661,071
Expenses		
General government.....	725,810	688,805
Public safety.....	1,475,719	1,352,915
Education.....	5,353,287	5,118,279
Public works.....	700,010	777,811
Health and human services.....	53,341	46,962
Culture and recreation.....	166,049	125,897
Debt service - interest.....	342,030	372,227
Total expenses.....	8,816,246	8,482,896
Change in net assets before special item.....	565,207	2,178,175
<i>Special item</i> - return of excess funds from Berlin-Boylston Regional School District.....	85,720	-
Change in net assets.....	650,927	2,178,175
Net assets - beginning of year.....	15,855,346	13,677,171
Net assets - end of year.....	\$ 16,506,273	\$ 15,855,346

Governmental activities increased the Town's net assets by \$650,927. In the prior year, governmental activities increased the Town's net assets by \$2,178,175. The key element of this change is that in fiscal year 2006, the Town accrued \$1,835,000 in capital grant revenue from the Massachusetts School Building Authority related to the Berlin Memorial Elementary School building project.

Fund Financial Statement Analysis

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

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's 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.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$4,610,212, an increase of \$407,065 in comparison with the prior year. Approximately 70.1% of this total amount (\$3,233,168) represents undesignated fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period (\$254,465)
- Loans (\$124,676)
- Perpetual permanent funds (\$156,925)
- Other specific purposes (\$426,528)
- Fund a portion of the fiscal year 2008 operating budget (\$414,450)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$923,819, while total fund balance was \$1,592,734. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Undesignated fund balance represents 10.9% of total general fund expenditures, while total fund balance represents 18.8% of that same amount.

The fund balance of the Town's general fund increased by \$144,231 during fiscal year 2007. Although the Town recognized a budgetary surplus of approximately \$761,000 (before encumbrances and continuing appropriations), reserves totaling approximately \$704,000 were used to fund the fiscal year 2007 operating budget.

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the stabilization fund (special revenue) increased by \$213,399 during the current fiscal year. This is attributable to a budgeted transfer in from the general fund (\$152,230) and investment income (\$61,169).

The fund balance of the conservation fund (special revenue) increased by \$44,275 during the current fiscal year. This is primarily attributable to mall mitigation revenues (\$50,000) and investment income (\$18,888).

General Fund Budgetary Highlights

The original general fund budget of \$8,732,849 was not increased during the fiscal year.

During the year, general fund revenues and other financing sources exceeded budgetary estimates and expenditures were less than appropriated, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$507,000. Included in this amount are encumbrances and continuing appropriations totaling \$254,465.

*Capital Asset and Debt Administration*Capital assets

The Town's investment in capital assets for its governmental activities at the end of the fiscal year totaled \$13,202,025 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year totaled 0.8%.

Major capital asset events that occurred during the current fiscal year include the following:

- Road improvements (\$319,698)
- Purchase of police cruiser (\$29,518)
- Purchase of mower (\$29,462)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>	
	2007	2006
Land.....	\$ 1,667,446	\$ 1,647,446
Land improvements.....	55,019	58,910
Buildings and improvements.....	9,438,607	9,737,196
Machinery, vehicles and equipment.....	1,084,211	1,200,011
Infrastructure.....	956,742	668,337
Total capital assets (restated).....	<u>\$ 13,202,025</u>	<u>\$ 13,311,900</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 32-33 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$6,658,137, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>	
	2007	2006
General obligation bonds.....	\$ 6,405,000	\$ 6,980,000
State house notes.....	122,000	244,000
MWPAT notes.....	131,137	140,754
Total bonds and notes.....	<u>\$ 6,658,137</u>	<u>\$ 7,364,754</u>

The Town's total bonded debt decreased by \$706,617 (9.6%) during the current fiscal year, with no new debt issuances.

Additional information on the Town's long-term debt can be found in Note 8 on pages 34 - 35 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2008 general fund operating budget was influenced by the following factors: fuel oil, electricity and health insurance costs have stabilized in fiscal year 2007 compared to the approximately 35% (on average) increase over the past few years; union-negotiated and/or contractual wages and expenses and the rising costs associated with municipal requirements and services; and the limitations on the property tax levy imposed by Proposition 2 ½.

Property, liability and workers' compensation insurance costs have gone from \$116,063 in fiscal year 2006 to \$131,170 in fiscal year 2007. This represents a 13% increase in these line items. The Town has changed its health insurance carrier and this has helped in maintaining the cost of health insurance to a reasonably affordable plan with minimal increases compared to the old carrier.

Approximately 40% of school employees and 20% of municipal employees are covered by union-negotiated and/or contractual agreements at last calculation. Contracts were under negotiation at the time of the fiscal year 2008 budget process. For fiscal year 2005, negotiated salary increases ranged from 1.25% to 3%. For fiscal year 2006, the range was 3% - 4%, and for fiscal year 2007, increases were 2% for 7 months with an additional 2% for the remaining part of the year. With these increases, the cost of incentives, sick time and vacation coverage will increase.

At the time the tax rate was set, the Commonwealth of Massachusetts (the Commonwealth) estimated that the Town's fiscal year 2007 state-aid receipts would be \$1,331,289. However, actual state receipts were only \$1,297,281 (net of the unbudgeted receipt of \$37,498 of roll-back tax payments). The shortfall of \$34,008 was primarily the result of charter school reimbursements. According to the Commonwealth, fiscal year 2008 state-aid receipts are estimated to be only \$1,068,149, which will make it very difficult to cover the projected increases in the operating budget.

Property taxes in Massachusetts are limited to a levy growth of 2 ½, plus a factor for new construction, known as new growth, unless the voters at an election approve an increase for operating expenses or debt service for a specific project. As a result of this limitation, property taxes in fiscal year 2007 increased \$179,695 over fiscal year 2006. This is an approximate 2.9% increase over fiscal year 2006. The fiscal year 2007 tax rate was \$10.96. The fiscal year 2008 tax rate is \$11.20.

Even with these major factors, the Town was able to vote on a balanced budget within the levy limit with the use of \$100,000 from Free Cash to reduce the tax rate in fiscal year 2007. Over \$263,000 in Free Cash was used for additional special articles. The ad hoc Capital Improvement Committee has been working to provide a capital plan that will have minimal impact on the town financially for all known capital expenses.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, 23 Linden Street, Berlin, Massachusetts, 01503

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents.....	\$ 4,327,821
Restricted cash and cash equivalents.....	327,079
Receivables, net of allowance for uncollectible amounts:	
Real estate and personal property taxes.....	158,737
Tax liens.....	267,474
Motor vehicle excise taxes.....	32,239
Departmental and other.....	42,807
Mall mitigation.....	50,000
Intergovernmental.....	478,152
Loans.....	4,878
Tax foreclosures.....	47,122
Total current assets.....	5,736,309
Noncurrent assets:	
Receivables, net of allowance for uncollectible amounts:	
Real estate tax deferrals.....	22,771
Mall mitigation.....	1,000,000
Intergovernmental.....	3,544,178
Loans.....	119,798
Capital assets not being depreciated.....	1,667,446
Capital assets, net of accumulated depreciation.....	11,534,579
Total noncurrent assets.....	17,888,772
Total assets.....	23,625,081
LIABILITIES	
Current liabilities:	
Warrants payable.....	67,056
Accrued payroll.....	189,444
Tax refunds payable.....	86,262
Other liabilities.....	26,713
Accrued interest.....	91,196
Long-term bonds and notes payable.....	706,617
Total current liabilities.....	1,167,288
Noncurrent liabilities:	
Long-term bonds and notes payable.....	5,951,520
Total liabilities.....	7,118,808
NET ASSETS	
Invested in capital assets, net of related debt.....	10,557,092
Restricted for:	
Loans.....	124,676
Permanent funds:	
Expendable.....	56,341
Nonexpendable.....	156,925
Other specific purposes.....	426,528
Unrestricted.....	5,184,711
Total net assets.....	\$ 16,506,273

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenues					Net (Expense)/ Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary government:						
Governmental activities:						
General government.....	\$ 725,810	\$ 44,183	\$ 92,357	\$ -	\$	(589,270)
Public safety.....	1,475,719	245,559	181,930	-		(1,048,230)
Education.....	5,353,287	53,395	997,856	-		(4,302,036)
Public works.....	700,010	85,587	9,374	287,101		(317,948)
Health and human services.....	53,341	8,632	20,475	-		(24,234)
Culture and recreation.....	166,049	2,892	55,227	-		(107,930)
Debt service - interest.....	342,030	-	131,351	-		(210,679)
Total governmental activities.....	<u>\$ 8,816,246</u>	<u>\$ 440,248</u>	<u>\$ 1,488,570</u>	<u>\$ 287,101</u>		<u>(6,600,327)</u>
General revenues:						
Real estate, personal property taxes and tax liens.....						6,315,578
Motor vehicle excise taxes.....						337,232
Penalties and interest on taxes.....						43,850
Payments in lieu of taxes.....						37,751
Grants and contributions not restricted to specific programs.....						285,359
Unrestricted investment income.....						145,764
Special item - return of excess funds from Berlin-Boylston Regional School District						85,720
Total general revenues.....						<u>7,251,254</u>
Change in net assets.....						650,927
Net assets - beginning of year.....						<u>15,855,346</u>
Net assets - end of year.....					\$	<u>16,506,273</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2007

ASSETS	General	Stabilization	Conservation	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 1,886,274	\$ 1,324,420	\$ 388,803	\$ 728,324	\$ 4,327,821
Receivables, net of allowance for uncollectible amounts:					
Real estate and personal property taxes.....	158,737	-	-	-	158,737
Real estate tax deferrals.....	22,771	-	-	-	22,771
Tax liens.....	267,474	-	-	-	267,474
Motor vehicle excise taxes.....	32,239	-	-	-	32,239
Departmental and other.....	7,663	-	-	35,144	42,807
Mall mitigation.....	-	-	1,050,000	-	1,050,000
Intergovernmental.....	3,882,067	-	-	140,263	4,022,330
Loans.....	-	-	-	124,676	124,676
Tax foreclosures.....	47,122	-	-	-	47,122
Restricted assets:					
Cash and cash equivalents.....	-	-	-	327,079	327,079
TOTAL ASSETS.....	\$ 6,304,347	\$ 1,324,420	\$ 1,438,803	\$ 1,355,486	\$ 10,423,056
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 64,932	\$ -	\$ -	\$ 2,124	\$ 67,056
Accrued payroll.....	175,481	-	-	13,963	189,444
Tax refunds payable.....	86,262	-	-	-	86,262
Other liabilities.....	26,713	-	-	-	26,713
Deferred revenue.....	4,358,225	-	1,050,000	35,144	5,443,369
TOTAL LIABILITIES.....	4,711,613	-	1,050,000	51,231	5,812,844
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations.....	254,465	-	-	-	254,465
Loans.....	-	-	-	124,676	124,676
Perpetual permanent funds.....	-	-	-	156,925	156,925
Other specific purposes.....	-	-	-	426,528	426,528
Unreserved:					
Designated for subsequent year's expenditures.....	414,450	-	-	-	414,450
Undesignated, reported in:					
General fund.....	923,819	-	-	-	923,819
Special revenue funds.....	-	1,324,420	388,803	534,403	2,247,626
Capital projects funds.....	-	-	-	5,382	5,382
Permanent funds.....	-	-	-	56,341	56,341
TOTAL FUND BALANCES.....	1,592,734	1,324,420	388,803	1,304,255	4,610,212
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 6,304,347	\$ 1,324,420	\$ 1,438,803	\$ 1,355,486	\$ 10,423,056

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Total governmental fund balances (page 16).....	\$ 4,610,212
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....	13,202,025
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....	5,443,369
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....	(91,196)
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.....	(6,658,137)
Net assets of governmental activities (page 14).....	\$ <u>16,506,273</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	Stabilization	Conservation	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Real estate, personal property taxes and tax liens.....	\$ 6,260,735	\$ -	\$ -	\$ -	\$ 6,260,735
Motor vehicle excise taxes.....	343,182	-	-	-	343,182
Tax liens.....	31,335	-	-	-	31,335
Payments in lieu of taxes.....	37,751	-	-	-	37,751
Charges for services.....	-	-	-	239,689	239,689
Intergovernmental.....	1,633,101	-	-	668,065	2,301,166
Penalties and interest on taxes.....	43,850	-	-	-	43,850
Licenses, permits and fees.....	22,401	-	-	88,278	110,679
Fines and forfeitures.....	43,128	-	-	-	43,128
Departmental and other.....	19,719	-	50,000	30,784	100,503
Contributions.....	-	-	-	52,435	52,435
Investment income.....	84,595	61,169	18,888	12,672	177,324
TOTAL REVENUES.....	8,519,797	61,169	68,888	1,091,923	9,741,777
EXPENDITURES					
Current:					
General government.....	586,570	-	24,613	5,082	616,265
Public safety.....	818,523	-	-	334,007	1,152,530
Education.....	4,275,289	-	-	175,067	4,450,356
Public works.....	485,262	-	-	360,764	846,026
Health and human services.....	22,730	-	-	2,950	25,680
Culture and recreation.....	95,186	-	-	60,768	155,954
Pension benefits.....	458,036	-	-	-	458,036
Employee benefits.....	501,491	-	-	-	501,491
Property and liability insurance.....	91,188	-	-	-	91,188
State and county charges.....	66,815	-	-	-	66,815
Debt service:					
Principal.....	706,617	-	-	-	706,617
Interest.....	349,474	-	-	-	349,474
TOTAL EXPENDITURES.....	8,457,181	-	24,613	938,638	9,420,432
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	62,616	61,169	44,275	153,285	321,345
OTHER FINANCING SOURCES (USES)					
Transfers in.....	154,286	152,230	-	6,161	312,677
Transfers out.....	(158,391)	-	-	(154,286)	(312,677)
TOTAL OTHER FINANCING SOURCES (USES).....	(4,105)	152,230	-	(148,125)	-
SPECIAL ITEM					
Return of excess funds from Berlin-Boylston Regional School District.....	85,720	-	-	-	85,720
NET CHANGE IN FUND BALANCES.....	144,231	213,399	44,275	5,160	407,065
FUND BALANCES AT BEGINNING OF YEAR.....	1,448,503	1,111,021	344,528	1,299,095	4,203,147
FUND BALANCES AT END OF YEAR.....	\$ 1,592,734	\$ 1,324,420	\$ 388,803	\$ 1,304,255	\$ 4,610,212

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**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18).....	\$	407,065
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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. These amounts represent the related activity of the current period.

Capital outlays.....		423,488
Depreciation.....		(533,363)

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.....

		(360,324)
--	--	-----------

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 impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount represents the related activity of the current period.

Bond maturities.....		706,617
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In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....

		7,444
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Changes in net assets of governmental activities (page 15).....	\$	<u>650,927</u>
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See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents.....	\$ 21,017
Receivables, net of allowance for uncollectible amounts:	
Departmental and other.....	<u>9,181</u>
Total assets.....	<u>\$ 30,198</u>
LIABILITIES	
Accrued payroll.....	3,026
Liabilities due depositors.....	17,991
Other liabilities.....	<u>9,181</u>
Total liabilities.....	<u>\$ 30,198</u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. General**

The basic financial statements 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 standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The Town of Berlin, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

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/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in two joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The following table identifies the Town's joint ventures and related information:

Name	Purpose	Address	Fiscal Year 2007 Assessment
Berlin-Boylston Regional School District	To provide educational services	215 Main Street Boylston, MA 01505	\$ 1,444,002
Assabet Valley Vocational Regional School District	To provide vocational educational services	215 Fitchburg Street Marlborough, MA 01752	\$ 340,116

The Berlin-Boylston School District is governed by a six-member school committee consisting of three elected representatives from the Town. The Town is indirectly liable for the Berlin-Boylston School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

The Assabet Valley Vocational Regional School District is governed by an eight-member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the Assabet Valley Vocational Regional School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement activities) report information on all non-fiduciary activities of the primary government.

Fund Financial Statements

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

D. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 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 specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental funds 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.

Real estate and personal property tax revenues are considered available if they are collected within 60-days after the end of the fiscal year. 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 required to be accounted for in another fund.

The *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and/or capital reserves. Use of this fund is subject to Town Meeting approval.

The *conservation fund* is a special revenue fund used to account for the accumulation of resources that can be used for open space resource purposes.

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 capital projects funds or permanent 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 permanent funds).

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

Fiduciary funds 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 government's programs.

The following fiduciary fund type is reported:

The *agency fund* is used to account for assets held in a custodial capacity. Such assets primarily consist of performance bonds and police detail activity. Agency funds do not present the results of operations or have a measurement focus.

E. 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.

F. Accounts Receivable**Government-Wide and Fund Financial Statements**

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

Real estate tax liens are processed approximately six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle Excise Taxes

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 to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

Departmental and Other

Departmental and other receivables consist primarily of ambulance and police detail charges and are recorded as receivables in the fiscal year accrued.

Intergovernmental

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

Mall Mitigation

In conjunction with the development of the Solomon Pond Mall, the Town entered into an agreement with Berlin Properties Limited Partnership to receive annual payments for the purpose of mitigating traffic, environmental, public safety, growth management and other impacts arising from the development of the Mall.

Loans

The Town administers various loan programs to residents that provide assistance to comply with Title V (related to septic systems) requirements. Loans are recorded as receivables upon issuance.

G. Allowance for Uncollectible Amounts

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle excise taxes
- Departmental and other

As of June 30, 2007, the allowance for uncollectible amounts for personal property and motor vehicle excise taxes receivable are immaterial and therefore not reported.

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes and tax liens
- Loans

Intergovernmental and Mall Mitigation receivables are considered 100% collectible.

H. 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.

I. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

J. Capital Assets

Government-Wide Financial Statements

Capital assets, which consist of land, land improvements, buildings and improvements, machinery, vehicles and equipment and infrastructure (e.g., roads and similar items), are reported in the governmental activities column of the government-wide 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.

All purchases and construction costs in excess of \$5,000 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.....	20
Buildings and improvements.....	20 - 40
Machinery, vehicles and equipment.....	5 - 20
Infrastructure.....	40 - 50

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 Funds Financial Statements

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

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets.

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.

L. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets.

Fund Financial Statements

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

M. Deferred Revenue

Deferred revenue at the 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. Deferred revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

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

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Loans" represents outstanding septic loans receivable.

"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 specific purposes" represents restrictions placed on assets from outside parties.

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 outstanding septic loans receivable.

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

"Other specific purposes" represents restrictions placed on assets from outside parties.

Fund balances have been "designated" for the following:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2008 operating budget.

*O. Long-term Debt*Government-Wide Financial Statements

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

Governmental Fund Financial Statements

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

P. 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).

Q. Compensated Absences

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

Government-Wide Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred. At June 30, 2007, the liability for accrued vacation and sick pay was not material to the basic financial statements and therefore is not reported.

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 upon employee retirements and resignations.

*R. 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.

*S. Total Column*Fund Financial Statements

The total column presented 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 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY*A. Budgetary Information*

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance 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. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases to the original budget subsequent to annual town meeting require special town meeting approval.

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.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2007 approved budget for the general fund authorized \$8,732,849 in appropriations and other amounts to be raised. During fiscal year 2007, no supplemental appropriations were authorized.

The Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2007, expenditures exceeded appropriations for health and human services, culture and recreation, and property and liability insurance. These over-expenditures will be funded by available funds during fiscal year 2008.

C. Fund Deficits

At June 30, 2007, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
SETB 911 Training Grant 2007.....	\$ 4,033	State grant
Small Rural School Federal Grant.....	1,422	Federal grant

NOTE 3 - DEPOSITS AND INVESTMENTS

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States Government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy is to rely on FDIC and DIF insurance coverage. As of June 30, 2007, the Town was not exposed to custodial credit risk.

Investments Summary

The Town's investments at June 30, 2007 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years) Less Than 1</u>
<u>Debt Securities:</u>		
Money market mutual funds..... \$	436,459	\$ 436,459
Repurchase agreements.....	438,193	438,193
External investment pools.....	3,716,064	3,716,064
Total investments..... \$	<u>4,590,716</u>	<u>\$ 4,590,716</u>

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of 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. The Town's policy is to fully insure their investments. As of June 30, 2007, the entire amount of the Town's investments was insured, and therefore not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2007, the Town's investments were unrated by a national credit rating organization.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2007, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 158,737	\$ -	\$ 158,737
Real estate tax deferrals.....	22,771	-	22,771
Tax liens.....	267,474	-	267,474
Motor vehicle excise taxes.....	32,239	-	32,239
Departmental and other.....	58,956	(6,968)	51,988
Mall mitigation.....	1,050,000	-	1,050,000
Intergovernmental.....	4,022,330	-	4,022,330
Loans.....	124,676	-	124,676
	<u>\$ 5,737,183</u>	<u>\$ (6,968)</u>	<u>\$ 5,730,215</u>

Mall Mitigation

In conjunction with the development of the Solomon Pond Mall (Mall), the Town entered into an agreement (Agreement) with Berlin Properties Limited Partnership (Developer) to receive annual payments for the purpose of mitigating traffic, as well as environmental, public safety, growth management and other impacts arising from the development of the Mall. During fiscal year 2007, \$50,000 of mitigation payments were received from the Developer per the terms of the Agreement. Approximately \$1,050,000 will be received in future fiscal years, and such payments relate solely to open space acquisition and preservation. Accordingly, a \$1,050,000 receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

School Construction

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2007, approximately \$459,000 of such assistance was received. Approximately \$4,586,823 will be received in future fiscal years. Of this amount, approximately \$704,756 represents reimbursement of long-term interest costs, and approximately \$3,882,067 represents reimbursement of approved construction costs. Accordingly, a \$3,882,067 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 98,889	\$ -	\$ 98,889
Real estate tax deferrals.....	22,771	-	22,771
Tax liens.....	267,474	-	267,474
Motor vehicle and other excise taxes.....	32,239	-	32,239
Departmental and other.....	7,663	35,144 (a)	42,807
Intergovernmental (state school construction).....	3,882,067	-	3,882,067
Tax foreclosures.....	47,122	-	47,122
Mall mitigation.....	-	1,050,000 (b)	1,050,000
Total.....	\$ 4,358,225	\$ 1,085,144	\$ 5,443,369

(a) Nonmajor Governmental Funds

(b) Conservation Fund (Major Fund)

NOTE 5 - 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.....	\$ 1,647,446	\$ 20,000	\$ -	\$ 1,667,446
<u>Capital assets being depreciated:</u>				
Land improvements.....	77,806	-	-	77,806
Buildings and improvements.....	12,061,092	-	-	12,061,092
Machinery, vehicles and equipment.....	2,371,436	83,790	-	2,455,226
Infrastructure.....	711,749	319,698	-	1,031,447
Total capital assets being depreciated.....	15,222,083	403,488	-	15,625,571
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(18,896)	(3,891)	-	(22,787)
Buildings and improvements.....	(2,323,896)	(298,589)	-	(2,622,485)
Machinery and equipment.....	(1,171,425)	(199,590)	-	(1,371,015)
Infrastructure.....	(43,412)	(31,293)	-	(74,705)
Total accumulated depreciation.....	(3,557,629)	(533,363)	-	(4,090,992)
Total capital assets being depreciated, net.....	11,664,454	(129,875)	-	11,534,579
Total governmental activities capital assets, net.....	\$ 13,311,900	\$ (109,875)	\$ -	\$ 13,202,025

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

Governmental Activities:

General government.....	\$	35,171
Public safety.....		187,700
Education.....		193,091
Public works.....		113,450
Culture and recreation.....		3,951

Total depreciation expense - governmental activities.....	\$	<u>533,363</u>
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NOTE 6 - INTERFUND TRANSFERS

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

Transfers Out:	Transfers In:			
	General Fund	Stabilization Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 152,230	\$ 6,161	\$ 158,391 (1)
Nonmajor Governmental Funds.....	<u>154,286</u>	<u>-</u>	<u>-</u>	<u>154,286 (2)</u>
	<u>\$ 154,286</u>	<u>\$ 152,230</u>	<u>\$ 6,161</u>	<u>\$ 312,677</u>

(1) Represents budgeted transfers of \$152,230 to the Stabilization Fund and \$6,161 to the School Lunch Fund.

(2) Represents budgeted transfers to the general fund from ambulance receipts reserved for appropriation (\$60,080); MWPAT fund (\$7,502); Anna Hunt trust fund (\$50); the Library Dog fund (\$1,701); and the cemetery receipts reserved for appropriation (\$10,599). Represents non-budgeted transfers to the general fund from the state surplus aid fund (\$52,000); the dog revolving fund (\$159); and offset receipts (\$22,195).

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 anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

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

The Town did not issue or retire any short-term debt during fiscal year 2007, nor was there any short-term debt outstanding at June 30, 2007.

NOTE 8 - LONG-TERM DEBT

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". 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".

Details related to the outstanding indebtedness at June 30, 2007, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2006	Issued	Redeemed	Outstanding at June 30, 2007
School Construction.....	4.50%	\$ 4,320,000	\$ -	\$ (360,000)	\$ 3,960,000
Town Hall Renovations.....	5.40%	2,660,000	-	(215,000)	2,445,000
MWPAT - Title V Loan.....	5.33%	104,863	-	(7,502)	97,361
MWPAT - Title V Loan.....	0.00%	35,891	-	(2,115)	33,776
State Note - Municipal Vehicles....	3.85%	244,000	-	(122,000)	122,000
Total.....		\$ 7,364,754	\$ -	\$ (706,617)	\$ 6,658,137

Debt service requirements for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2008.....	\$ 706,617	\$ 332,498	\$ 1,039,115
2009.....	584,617	301,312	885,929
2010.....	584,617	269,466	854,083
2011.....	579,668	239,723	819,391
2012.....	579,668	212,001	791,669
2013.....	579,606	183,689	763,295
2014.....	579,658	154,984	734,642
2015.....	579,658	125,993	705,651
2016.....	559,523	96,905	656,428
2017.....	559,523	68,744	628,267
2018.....	554,523	40,292	594,815
2019.....	194,523	11,935	206,458
2020.....	9,523	683	10,206
2021.....	2,105	373	2,478
2022.....	2,154	266	2,420
2023.....	2,154	106	2,260
Total.....	\$ 6,658,137	\$ 2,038,970	\$ 8,697,107

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2007, the Town's subsidy totaled approximately \$7,100. Future subsidies total approximately \$48,000. The amount of MWPAT bonds outstanding at June 30, 2007, totaled \$131,137.

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 no authorized and unissued debt.

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 participates in a premium-based health care plan for its active employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

NOTE 10 - PENSION PLAN

Plan Description - The Town contributes to the Worcester Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Worcester Regional Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Commonwealth's 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 \$298,000 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 increases 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 authorized by the System and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at the Worcester County Court House, Worcester, Massachusetts, 01608.

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. Chapter 32 of MGL governs the contributions of plan members. The Town's contributions to the System for the fiscal years ended June 30, 2007, 2006, and 2005 were \$159,714, \$146,675, and \$122,751, respectively, which equaled its required contribution for each fiscal year.

NOTE 11 - CONTINGENCIES

Various legal actions and claims are pending against the Town. 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 of the Town at June 30, 2007.

The Town participates in a number of federal award programs. The programs are 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 the Town expects such amounts, if any, to be immaterial.

NOTE 12 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented during fiscal year 2009. This Statement will not impact the Town's basic financial statements.
- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2010. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- 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 during fiscal year 2008. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is required to be implemented during fiscal year 2009. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #50, *Pension Disclosures*, which is required to be implemented during fiscal year 2008. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #51, *Accounting and Financial Reporting for Intangible Assets*, which is required to be implemented during fiscal year 2010. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.

These pronouncements will be implemented by their required year of implementation.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 6,221,904	\$ -	\$ 6,221,904
Motor vehicle excise taxes.....	-	378,400	-	378,400
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	37,750	-	37,750
Intergovernmental.....	-	1,331,289	-	1,331,289
Penalties and interest on taxes.....	-	19,500	-	19,500
Licenses, permits and fees.....	-	21,700	-	21,700
Fines and forfeitures.....	-	42,000	-	42,000
Departmental.....	-	56,700	-	56,700
Investment income.....	-	56,000	-	56,000
TOTAL REVENUES.....	-	8,165,243	-	8,165,243
EXPENDITURES				
Current:				
General government.....	61,310	698,021	-	759,331
Public safety.....	20,387	846,971	-	867,358
Education.....	80,566	4,354,620	-	4,435,186
Public works.....	21,462	513,703	-	535,165
Health and human services.....	9,025	22,179	-	31,204
Culture and recreation.....	20,000	97,352	-	117,352
Pension benefits.....	-	159,714	-	159,714
Employee benefits.....	4,000	619,267	-	623,267
Property and liability insurance.....	-	90,000	-	90,000
State and county charges.....	-	106,541	-	106,541
Debt service:				
Principal.....	-	706,617	-	706,617
Interest.....	-	359,474	-	359,474
TOTAL EXPENDITURES.....	216,750	8,574,458	-	8,791,208
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(216,750)	(409,215)	-	(625,965)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	79,933	-	79,933
Transfers out.....	-	(158,391)	-	(158,391)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(78,458)	-	(78,458)
SPECIAL ITEM				
Return of excess funds from Berlin-Boylston Regional School District....	-	-	-	-
NET CHANGE IN FUND BALANCE.....	(216,750)	(487,673)	-	(704,423)
FUND BALANCE AT BEGINNING OF YEAR.....	1,562,045	1,562,045	1,562,045	1,562,045
FUND BALANCE AT END OF YEAR.....	\$ 1,345,295	\$ 1,074,372	\$ 1,562,045	\$ 857,622

See notes to basic financial statements.

Actual	Encumbrances and Continuing Appropriations	Total Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 6,269,995	\$ -	\$ 6,269,995	\$ 48,091
343,182	-	343,182	(35,218)
31,335	-	31,335	31,335
37,751	-	37,751	1
1,334,779	-	1,334,779	3,490
43,850	-	43,850	24,350
22,401	-	22,401	701
43,128	-	43,128	1,128
19,515	-	19,515	(37,185)
84,595	-	84,595	28,595
<u>8,230,531</u>	<u>-</u>	<u>8,230,531</u>	<u>65,288</u>
601,322	83,121	684,443	74,888
829,996	29,257	859,253	8,105
4,325,265	89,851	4,415,116	20,070
505,246	19,035	524,281	10,884
22,730	9,029	31,759	(555)
95,186	22,672	117,858	(507)
159,714	-	159,714	-
501,491	1,500	502,991	120,276
91,188	-	91,188	(1,188)
66,815	-	66,815	39,726
706,617	-	706,617	-
349,474	-	349,474	10,000
<u>8,255,044</u>	<u>254,465</u>	<u>8,509,509</u>	<u>281,699</u>
<u>(24,513)</u>	<u>(254,465)</u>	<u>(278,978)</u>	<u>346,987</u>
154,286	-	154,286	74,353
(158,391)	-	(158,391)	-
<u>(4,105)</u>	<u>-</u>	<u>(4,105)</u>	<u>74,353</u>
<u>85,720</u>	<u>-</u>	<u>85,720</u>	<u>85,720</u>
57,102	(254,465)	(197,363)	507,060
<u>1,562,045</u>	<u>1,562,045</u>	<u>1,562,045</u>	<u>-</u>
\$ <u>1,619,147</u>	\$ <u>1,307,580</u>	\$ <u>1,364,682</u>	\$ <u>507,060</u>

A. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Massachusetts 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:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 8,230,531	\$ 8,509,509
<u>Adjustments</u>		
Net change in recording 60-day receipts.....	(11,794)	-
Net change in recording tax refunds payable.....	2,738	-
To record activity for MTRS on-behalf payments.....	298,322	298,322
Net change in recording other expenditures.....	-	(96,185)
To account for encumbrances.....	-	(254,465)
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ <u>8,519,797</u>	\$ <u>8,457,181</u>