

TOWN OF NAHANT, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements.....	14
Statement of net assets.....	15
Statement of activities.....	16
Governmental funds – balance sheet.....	18
Governmental funds – statement of revenues, expenditures and changes in fund balances.....	20
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.....	22
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	23
Proprietary fund – statement of fund net assets.....	24
Proprietary fund – statement of revenues, expenses and changes in fund net assets.....	25
Proprietary fund – statement of cash flows.....	26
Fiduciary fund – statement of fiduciary net assets.....	27
Notes to basic financial statements.....	28
Required Supplementary Information.....	51
General fund – schedule of revenues, expenditures and changes in fund balance – budget and actual.....	52
Pension plan schedules.....	54
Schedules of funding progress (system).....	54
Schedule of employer contributions (system).....	54
Town share of system ARC.....	54
Notes to required supplementary information.....	55

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Independent Auditors' Report

Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Nahant, 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 Nahant, Massachusetts, as of and for the year ended June 30, 2008, 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 Nahant, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nahant, Massachusetts, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the 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 October 1, 2008 on our consideration of the Town of Nahant, 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 13) and the general fund budgetary comparison information and certain pension information (located on pages 51 through 56) 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.

Sullivan, Ry & Company, LLC

October 1, 2008

Management's Discussion and Analysis

As management of the Town of Nahant, 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, 2008.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$20,343,420 (net assets). Of this amount, \$1,585,195 (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 \$759,148.
- As of the close of the fiscal year, the Town's governmental funds reported a combined ending fund balance of (\$506,193), a decrease of \$661,831 in comparison with the prior year. \$1,494,208 represents unreserved fund balance of the general fund, special revenue funds and permanent funds. The capital projects funds deficit (including the coast guard houses major fund) totaling \$2,163,443 will be funded through the issuance of long-term debt and available funds in future fiscal years.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$340,062, or 3.1 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt decreased by \$851,534 during the fiscal year; \$134,000 of new debt was issued for water projects.

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, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the Town 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*).

Governmental activities include general government, public safety, education, public works, trash disposal, health and human services, culture and recreation and debt service - interest. Business-type activities include the water and sewer operations.

The government-wide financial statements can be found on pages 15-17 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. Proprietary funds
3. 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 17 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), school construction (capital projects), community preservation (special revenue), and coast guard houses (capital projects) funds, each of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 18-23 of this report.

Proprietary funds

The Town maintains one type of proprietary fund.

The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer operations, which is considered to be a major fund.

The basic proprietary fund financial statements can be found on pages 24-26 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 proprietary 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 27 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 28-50 of this report.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension information, which can be found on pages 51-56 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 \$20,343,420 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets.....	\$ 2,748,360	\$ 2,964,485	\$ 661,812	\$ 435,551	\$ 3,410,172	\$ 3,400,036
Noncurrent assets (excluding capital assets).....	96,555	96,555	-	-	96,555	96,555
Capital assets (net).....	<u>21,228,024</u>	<u>21,110,038</u>	<u>6,977,550</u>	<u>6,891,189</u>	<u>28,205,574</u>	<u>28,001,227</u>
Total assets.....	<u>24,072,939</u>	<u>24,171,078</u>	<u>7,639,362</u>	<u>7,326,740</u>	<u>31,712,301</u>	<u>31,497,818</u>
Liabilities						
Current liabilities (excluding debt).....	619,204	540,658	61,811	210,788	681,015	751,446
Noncurrent liabilities (excluding debt).....	304,200	284,000	9,900	10,800	314,100	294,800
Current debt.....	2,933,000	2,699,000	367,934	386,534	3,300,934	3,085,534
Noncurrent debt.....	<u>5,385,000</u>	<u>5,935,000</u>	<u>1,687,832</u>	<u>1,846,766</u>	<u>7,072,832</u>	<u>7,781,766</u>
Total liabilities.....	<u>9,241,404</u>	<u>9,458,658</u>	<u>2,127,477</u>	<u>2,454,888</u>	<u>11,368,881</u>	<u>11,913,546</u>
Net Assets						
Invested in capital assets (net of related debt).....	12,993,399	12,588,859	4,993,231	4,657,889	17,986,630	17,246,748
Restricted.....	771,595	800,234	-	-	771,595	800,234
Unrestricted.....	<u>1,066,541</u>	<u>1,323,327</u>	<u>518,654</u>	<u>213,963</u>	<u>1,585,195</u>	<u>1,537,290</u>
Total net assets.....	<u>\$ 14,831,535</u>	<u>\$ 14,712,420</u>	<u>\$ 5,511,885</u>	<u>\$ 4,871,852</u>	<u>\$ 20,343,420</u>	<u>\$ 19,584,272</u>

The largest portion of the Town's net assets (88.4%) reflects its investment in capital assets (e.g., land, works of art, land improvements, buildings and improvements, machinery and equipment, library books, vehicles 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 (3.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (7.8% or \$1,585,195) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$1,066,541 may be used to support governmental activities and \$518,654 may be used to support business-type activities.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Assets

For the fiscal year ended June 30, 2008, the Town's total net assets increased by \$759,148, compared to an increase of \$1,043,065 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2008	2007	2008	2007	2008	2007
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 1,338,865	\$ 1,184,161	\$ 1,660,993	\$ 1,706,847	\$ 2,999,858	\$ 2,891,008
Operating grants and contributions.....	435,669	340,218	-	-	435,669	340,218
Capital grants and contributions.....	167,027	839,609	-	-	167,027	839,609
<i>General Revenues:</i>						
Real estate, personal property taxes and tax liens.....	7,132,991	5,954,270	-	-	7,132,991	5,954,270
Motor vehicle and other excise taxes.....	476,564	475,327	-	-	476,564	475,327
Penalties and interest on taxes.....	24,101	23,441	-	-	24,101	23,441
Community preservation surcharges.....	171,113	142,493	-	-	171,113	142,493
Grants and contributions not restricted to specific programs.....	1,647,839	1,398,391	-	-	1,647,839	1,398,391
Unrestricted investment income.....	39,614	114,776	-	-	39,614	114,776
Total revenues.....	11,433,783	10,472,686	1,660,993	1,706,847	13,094,776	12,179,533
Expenses						
General government.....	1,167,831	1,098,430	-	-	1,167,831	1,098,430
Public safety.....	2,702,061	2,426,537	-	-	2,702,061	2,426,537
Education.....	4,876,393	4,389,542	-	-	4,876,393	4,389,542
Public works.....	1,004,008	756,988	-	-	1,004,008	756,988
Trash disposal.....	355,065	350,468	-	-	355,065	350,468
Health and human services.....	135,111	122,981	-	-	135,111	122,981
Culture and recreation.....	321,878	370,273	-	-	321,878	370,273
Debt service - interest.....	426,179	411,286	-	-	426,179	411,286
Water/Sewer.....	-	-	1,347,102	1,209,963	1,347,102	1,209,963
Total expenses.....	10,988,526	9,926,505	1,347,102	1,209,963	12,335,628	11,136,468
Change in net assets before transfers.....	445,257	546,181	313,891	496,884	759,148	1,043,065
Transfers, net.....	(326,142)	551,985	326,142	(551,985)	-	-
Change in net assets.....	119,115	1,098,166	640,033	(55,101)	759,148	1,043,065
Net assets - beginning of year.....	14,712,420	13,614,254	4,871,852	4,926,953	19,584,272	18,541,207
Net assets - end of year.....	\$ 14,831,535	\$ 14,712,420	\$ 5,511,885	\$ 4,871,852	\$ 20,343,420	\$ 19,584,272

Governmental activities increased the Town's net assets by \$119,115. In the prior year, governmental activities increased the Town's net assets by \$1,098,166. The key elements of this change are as follows:

- In fiscal year 2007, the water/sewer enterprise fund transferred approximately \$463,000 to the general fund for the accumulation of fund balance from fiscal years 2004 through 2006 when the water/sewer activity was reported as an enterprise fund for financial reporting purposes only (internally the activity was accounted for in the general fund)

- In fiscal year 2008, the general fund transferred approximately \$483,000 to the water/sewer enterprise fund to pay debt service

Business-type activities increased the Town's net assets by \$640,033. In the prior year, business-type activities decreased the Town's net assets by \$55,101. The key elements of this change are the same as the change in governmental activities.

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 a combined ending fund balance totaling (\$506,193), a decrease of \$661,831 in comparison with the prior year. \$1,199,773 represents undesignated fund balance of the general fund, special revenue funds and permanent funds. The capital projects funds deficit (including the coast guard houses major fund) totaling \$2,163,443 will be funded through the issuance of long-term debt and available funds in future fiscal years. The remainder of fund balance is designated or reserved 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 (\$16,904)
- Perpetual permanent funds (\$25,150)
- Other specific purposes (\$120,988)
- Fund a portion of the fiscal year 2009 operating budget (\$294,435)

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 \$340,062, while total fund balance was \$651,401. 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 and transfers out. Undesignated fund balance represents 3.1% of total general fund expenditures and transfers out, while total fund balance represents 6.0% of that same amount.

The balance of the Town's general fund decreased \$449,594 during the current fiscal year. Although the Town's decrease in fund balance on a budgetary basis was less than the final amended budget amount by approximately \$154,000 (excluding encumbrances and continuing appropriations), approximately \$591,000 of reserves were used to fund the fiscal year 2008 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 \$2,300 during the current fiscal year. This is attributable to investment income.

The fund balance of the school construction fund (capital projects) increased by \$74,221 during the current fiscal year. The fund recognized \$112,821 in intergovernmental revenues. Expenditures of \$38,600 were incurred during the fiscal year.

The fund balance of the community preservation fund (special revenue) decreased by \$58,703 during the current fiscal year. The fund recognized \$169,725 in surcharges, \$142,839 in intergovernmental revenues and \$22,820 of investment income. Expenditures of \$394,087 were incurred during the fiscal year.

The fund balance of the coast guard houses fund (capital projects) increased by \$104,421 during the current fiscal year. Expenditures of \$12,579 were incurred during the fiscal year. The fund received a \$117,000 transfer in from the general fund during the fiscal year.

Proprietary fund

The Town’s proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water/sewer enterprise fund at the end of the year amounted to \$518,654. The water/sewer fund had an increase in net assets for the year of \$640,033. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town’s business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$10,228,240 was increased by \$50,000 (0.5%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Transfer to road construction capital projects fund.....	\$ <u>50,000</u>	Undesignated fund balance

During the year, revenues and other financing sources exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgetary estimates, resulting in an actual decrease in fund balance that was less than the final amended budget amount by approximately \$137,000.

Capital Asset and Debt Administration

Capital assets

The Town’s investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$28,205,574 (net of accumulated depreciation). This investment in capital assets includes land, works of art, land improvements, buildings and improvements, machinery and equipment, library books, vehicles and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled 0.7% (a 0.4% increase for governmental activities and a 0.3% increase for business-type activities).

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

- Continued upgrades of the water and sewer infrastructure (\$295,000)
- New stairway access to Forty Steps Beach (\$194,000)
- Construction of school roof (\$175,000)
- Purchase of vehicles (\$96,000)
- Improvements to the Nahant Life Saving Station (\$90,000)

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2008	2007	2008	2007	2008	2007
Land.....	\$ 7,663,885	\$ 7,642,275	\$ -	\$ -	\$ 7,663,885	\$ 7,642,275
Works of art.....	107,500	107,500	-	-	107,500	107,500
Land improvements.....	281,281	299,018	-	-	281,281	299,018
Buildings and improvements.....	10,415,702	10,447,151	-	-	10,415,702	10,447,151
Machinery and equipment.....	949,165	774,092	-	-	949,165	774,092
Library books.....	164,953	158,872	-	-	164,953	158,872
Vehicles.....	454,623	451,581	-	-	454,623	451,581
Infrastructure.....	1,190,915	1,229,549	6,977,550	6,891,189	8,168,465	8,120,738
Total capital assets.....	\$ 21,228,024	\$ 21,110,038	\$ 6,977,550	\$ 6,891,189	\$ 28,205,574	\$ 28,001,227

Additional information on the Town's capital assets can be found in Note 5 on pages 41-42 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$7,915,766, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2008	2007	2008	2007	2008	2007
General obligation bonds.....	\$ 5,545,000	\$ 5,994,000	\$ 1,391,780	\$ 1,698,090	\$ 6,936,780	\$ 7,692,090
Federally taxable general obligation bonds.....	120,000	180,000	-	-	120,000	180,000
State house notes.....	270,000	360,000	-	-	270,000	360,000
MWRA notes.....	-	-	588,986	535,210	588,986	535,210
Total bonds and notes.....	\$ 5,935,000	\$ 6,534,000	\$ 1,980,766	\$ 2,233,300	\$ 7,915,766	\$ 8,767,300

The Town's total bonded debt decreased by \$851,534 (9.7%) during the current fiscal year; \$134,000 of new debt was issued for water projects.

Additional information on the Town's long-term debt can be found in Note 8 on pages 44-48 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2009 general fund operating budget was influenced by three major factors: increased utility and retirement costs, contractual salary increases and limitations on the property tax levy imposed by Proposition 2 ½.

Budgeted utility costs increased by 20% for all departments. Oil, gasoline and electricity have continued to climb and take a bigger portion of each department's budget. Essex Regional Retirement Assessment increased 13% from fiscal year 2008 cost of \$358,682 to fiscal year 2009 cost of \$403,300.

Approximately 90% of school employees and 75% of municipal employees are covered by collective bargaining agreements. In fiscal year 2009, negotiated salary increases ranged from 3.0% to 4.0%.

Property taxes in Massachusetts' municipalities are limited to a growth of 2.5% plus a factor for new construction, unless the voters elect to approve an increase for operating expenses or debt service for a specific project. This limitation, exclusive of debt previously excluded from Proposition 2 ½, provided for an increase of property taxes of \$152,129 (2.2%).

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, 334 Nahant Road, Nahant, Massachusetts 01908.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2008

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents.....	\$ 1,500,615	\$ 92,517	\$ 1,593,132
Restricted cash and cash equivalents.....	879,887	71,447	951,334
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	133,948	-	133,948
Real estate tax deferrals.....	11,813	-	11,813
Tax and utility liens.....	83,096	4,067	87,163
Motor vehicle and other excise taxes.....	68,589	-	68,589
Community preservation surcharges.....	2,797	-	2,797
Water.....	-	302,096	302,096
Sewer.....	-	191,685	191,685
Trash.....	3,943	-	3,943
Parking violations.....	16,605	-	16,605
Departmental and other.....	40,467	-	40,467
Intergovernmental.....	6,600	-	6,600
Total current assets.....	<u>2,748,360</u>	<u>661,812</u>	<u>3,410,172</u>
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	96,555	-	96,555
Capital assets not being depreciated.....	7,771,385	-	7,771,385
Capital assets, net of accumulated depreciation.....	<u>13,456,639</u>	<u>6,977,550</u>	<u>20,434,189</u>
Total noncurrent assets.....	<u>21,324,579</u>	<u>6,977,550</u>	<u>28,302,129</u>
Total assets.....	<u>24,072,939</u>	<u>7,639,362</u>	<u>31,712,301</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	320,950	49,157	370,107
Accrued payroll.....	81,654	11,554	93,208
Other liabilities.....	21,753	-	21,753
Accrued interest.....	161,047	-	161,047
Compensated absences.....	33,800	1,100	34,900
Short-term notes payable.....	2,383,000	75,000	2,458,000
Long-term bonds and notes payable.....	550,000	292,934	842,934
Total current liabilities.....	<u>3,552,204</u>	<u>429,745</u>	<u>3,981,949</u>
Noncurrent liabilities:			
Compensated absences.....	304,200	9,900	314,100
Long-term bonds and notes payable.....	5,385,000	1,687,832	7,072,832
Total noncurrent liabilities.....	<u>5,689,200</u>	<u>1,697,732</u>	<u>7,386,932</u>
Total liabilities.....	<u>9,241,404</u>	<u>2,127,477</u>	<u>11,368,881</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	12,993,399	4,993,231	17,986,630
Restricted for:			
Community preservation.....	561,904	-	561,904
Permanent funds:			
Expendable.....	63,553	-	63,553
Nonexpendable.....	25,150	-	25,150
Other specific purposes.....	120,988	-	120,988
Unrestricted.....	1,066,541	518,654	1,585,195
Total net assets.....	<u>\$ 14,831,535</u>	<u>\$ 5,511,885</u>	<u>\$ 20,343,420</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 1,167,831	\$ 502,183	\$ 30,896	\$ -	\$ (634,752)
Public safety.....	2,702,061	74,356	93,943	-	(2,533,762)
Education.....	4,876,393	269,492	151,846	-	(4,455,055)
Public works.....	1,004,008	81,976	113,971	24,188	(783,873)
Trash disposal.....	355,065	364,218	-	-	9,153
Health and human services.....	135,111	4,697	6,629	-	(123,785)
Culture and recreation.....	321,878	41,943	29,313	142,839	(107,783)
Debt service - interest.....	426,179	-	9,071	-	(417,108)
Total governmental activities.....	<u>10,988,526</u>	<u>1,338,865</u>	<u>435,669</u>	<u>167,027</u>	<u>(9,046,965)</u>
Business-type activities:					
Water/Sewer.....	<u>1,347,102</u>	<u>1,660,993</u>	<u>-</u>	<u>-</u>	<u>313,891</u>
Total primary government.....	<u>\$ 12,335,628</u>	<u>\$ 2,999,858</u>	<u>\$ 435,669</u>	<u>\$ 167,027</u>	<u>\$ (8,733,074)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (9,046,965)	\$ 313,891	\$ (8,733,074)
<i>General revenues:</i>			
Real estate, personal property taxes and tax liens.....	7,132,991	-	7,132,991
Motor vehicle and other excise taxes.....	476,564	-	476,564
Penalties and interest on taxes.....	24,101	-	24,101
Community preservation surcharges.....	171,113	-	171,113
Grants and contributions not restricted to specific programs.....	1,647,839	-	1,647,839
Unrestricted investment income.....	39,614	-	39,614
<i>Transfers, net</i>	(326,142)	326,142	-
Total general revenues and transfers.....	9,166,080	326,142	9,492,222
Change in net assets.....	119,115	640,033	759,148
Net assets - beginning of year.....	14,712,420	4,871,852	19,584,272
Net assets - end of year.....	\$ 14,831,535	\$ 5,511,885	\$ 20,343,420

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2008

	General	Stabilization	School Construction
ASSETS			
Cash and cash equivalents.....	\$ 1,087,637	\$ 76,650	\$ -
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	133,948	-	-
Real estate tax deferrals.....	108,368	-	-
Tax and trash liens.....	81,954	-	-
Motor vehicle and other excise taxes.....	68,589	-	-
Community preservation surcharges.....	-	-	-
Trash.....	3,943	-	-
Parking violations.....	16,605	-	-
Departmental and other.....	40,467	-	-
Intergovernmental.....	-	-	-
Restricted assets:			
Cash and cash equivalents.....	-	-	-
TOTAL ASSETS.....	\$ 1,541,511	\$ 76,650	\$ -
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 256,024	\$ -	\$ -
Accrued payroll.....	79,121	-	-
Other liabilities.....	21,753	-	-
Deferred revenue.....	453,874	-	-
Accrued short-term interest.....	79,338	-	-
Short-term notes payable.....	-	-	-
TOTAL LIABILITIES.....	890,110	-	-
FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	16,904	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	294,435	-	-
Undesignated, reported in:			
General fund.....	340,062	-	-
Special revenue funds.....	-	76,650	-
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	651,401	76,650	-
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,541,511	\$ 76,650	\$ -

See notes to basic financial statements.

Community Preservation	Coast Guard Houses	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 336,328	\$ 1,500,615
-	-	-	133,948
-	-	-	108,368
1,142	-	-	83,096
-	-	-	68,589
2,797	-	-	2,797
-	-	-	3,943
-	-	-	16,605
-	-	-	40,467
-	-	6,600	6,600
<u>707,965</u>	<u>14,842</u>	<u>157,080</u>	<u>879,887</u>
<u>\$ 711,904</u>	<u>\$ 14,842</u>	<u>\$ 500,008</u>	<u>\$ 2,844,915</u>
\$ -	\$ -	\$ 64,926	\$ 320,950
-	-	2,533	81,654
-	-	-	21,753
3,939	-	6,600	464,413
-	-	-	79,338
<u>150,000</u>	<u>1,983,000</u>	<u>250,000</u>	<u>2,383,000</u>
<u>153,939</u>	<u>1,983,000</u>	<u>324,059</u>	<u>3,351,108</u>
-	-	-	16,904
-	-	25,150	25,150
-	-	120,988	120,988
-	-	-	294,435
-	-	-	340,062
557,965	-	161,543	796,158
-	(1,968,158)	(195,285)	(2,163,443)
<u>-</u>	<u>-</u>	<u>63,553</u>	<u>63,553</u>
<u>557,965</u>	<u>(1,968,158)</u>	<u>175,949</u>	<u>(506,193)</u>
<u>\$ 711,904</u>	<u>\$ 14,842</u>	<u>\$ 500,008</u>	<u>\$ 2,844,915</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General	Stabilization	School Construction
REVENUES			
Real estate and personal property taxes.....	\$ 7,018,253	\$ -	\$ -
Motor vehicle and other excise taxes.....	478,053	-	-
Tax liens.....	32,121	-	-
Community preservation surcharges.....	-	-	-
Charges for services.....	2,613	-	-
Trash disposal.....	364,121	-	-
Intergovernmental.....	1,644,047	-	112,821
Penalties and interest on taxes.....	24,101	-	-
Licenses, permits and fees.....	480,074	-	-
Fines and forfeitures.....	49,081	-	-
Departmental.....	70,471	-	-
Contributions.....	-	-	-
Investment income.....	39,614	2,300	-
TOTAL REVENUES.....	10,202,549	2,300	112,821
EXPENDITURES			
Current:			
General government.....	786,568	-	-
Public safety.....	1,962,370	-	-
Education.....	3,255,820	-	38,600
Public works.....	508,271	-	-
Trash disposal.....	355,065	-	-
Health and human services.....	42,157	-	-
Culture and recreation.....	229,015	-	-
Pension benefits.....	956,019	-	-
Employee benefits.....	675,950	-	-
Property and liability insurance.....	186,602	-	-
State and county charges.....	185,165	-	-
Debt service:			
Principal.....	509,000	-	-
Interest.....	499,070	-	-
TOTAL EXPENDITURES.....	10,151,072	-	38,600
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	51,477	2,300	74,221
OTHER FINANCING SOURCES (USES)			
Transfers in.....	157,341	-	-
Premium from issuance of bonds and notes.....	9,071	-	-
Transfers out.....	(667,483)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	(501,071)	-	-
NET CHANGE IN FUND BALANCES.....	(449,594)	2,300	74,221
FUND BALANCES AT BEGINNING OF YEAR.....	1,100,995	74,350	(74,221)
FUND BALANCES AT END OF YEAR.....	\$ 651,401	\$ 76,650	\$ -

See notes to basic financial statements.

Community Preservation	Coast Guard Houses	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 7,018,253
-	-	-	478,053
-	-	-	32,121
169,725	-	-	169,725
-	-	262,193	264,806
-	-	-	364,121
142,839	-	367,606	2,267,313
-	-	-	24,101
-	-	64,111	544,185
-	-	-	49,081
-	-	26,347	96,818
-	-	53,201	53,201
22,820	-	2,051	66,785
<u>335,384</u>	<u>-</u>	<u>775,509</u>	<u>11,428,563</u>
51,792	12,579	55,885	906,824
-	-	131,732	2,094,102
-	-	599,668	3,894,088
-	-	320,194	828,465
-	-	-	355,065
-	-	5,108	47,265
235,375	-	64,398	528,788
-	-	-	956,019
-	-	-	675,950
-	-	-	186,602
-	-	-	185,165
90,000	-	-	599,000
16,920	-	-	515,990
<u>394,087</u>	<u>12,579</u>	<u>1,176,985</u>	<u>11,773,323</u>
<u>(58,703)</u>	<u>(12,579)</u>	<u>(401,476)</u>	<u>(344,760)</u>
-	117,000	67,000	341,341
-	-	-	9,071
-	-	-	(667,483)
<u>-</u>	<u>117,000</u>	<u>67,000</u>	<u>(317,071)</u>
(58,703)	104,421	(334,476)	(661,831)
616,668	(2,072,579)	510,425	155,638
<u>\$ 557,965</u>	<u>\$ (1,968,158)</u>	<u>\$ 175,949</u>	<u>\$ (506,193)</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Total governmental fund balances (page 19).....	\$	(506,193)
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		21,228,024
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		464,413
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(81,709)
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.....		(5,935,000)
Compensated absences.....		<u>(338,000)</u>
Net assets of governmental activities (page 15).....	\$	<u><u>14,831,535</u></u>

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, 2008

Net change in fund balances - total governmental funds (page 21).....	\$	(661,831)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		890,464
Depreciation.....		(767,918)
<p>In the statement of activities, only the <i>gain</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.....</p>		
		(4,560)
<p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(3,851)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any 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:</p>		
Bond maturities.....		599,000
<p>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.....</p>		
		89,811
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. This amount represents the net change:</p>		
Compensated absences.....		(22,000)
Changes in net assets of governmental activities (page 17).....	\$	<u>119,115</u>

See notes to basic financial statements.

PROPRIETARY FUND
STATEMENT OF FUND NET ASSETS

JUNE 30, 2008

		Business-Type Activities - Enterprise Fund
ASSETS		Water/Sewer
Current assets:		
Cash and cash equivalents.....	\$	92,517
Restricted cash and cash equivalents.....		71,447
Receivables, net of allowance for uncollectible amounts:		
Water.....		302,096
Sewer.....		191,685
Utility liens.....		4,067
Total current assets.....		661,812
Noncurrent assets:		
Capital assets, net of accumulated depreciation.....		6,977,550
Total assets.....		7,639,362
LIABILITIES		
Current liabilities:		
Warrants payable.....		49,157
Accrued payroll.....		11,554
Compensated absences.....		1,100
Short-term notes payable.....		75,000
Long-term bonds and notes payable.....		292,934
Total current liabilities.....		429,745
Noncurrent liabilities:		
Compensated absences.....		9,900
Long-term bonds and notes payable.....		1,687,832
Total noncurrent liabilities.....		1,697,732
Total liabilities.....		2,127,477
FUND NET ASSETS		
Invested in capital assets, net of related debt.....		4,993,231
Unrestricted.....		518,654
Total fund net assets.....	\$	5,511,885

See notes to basic financial statements.

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		<u>Business-Type Activities - Enterprise Fund</u>
		<u>Water/Sewer</u>
OPERATING REVENUES		
Charges for services.....	\$	<u>1,651,071</u>
OPERATING EXPENSES		
Cost of service and administration.....		507,481
MWRA assessment.....		332,081
Lynn assessment.....		207,970
Depreciation.....		<u>209,122</u>
TOTAL OPERATING EXPENSES.....		<u>1,256,654</u>
OPERATING INCOME (LOSS).....		<u>394,417</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income.....		9,922
Interest expense.....		<u>(90,448)</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....		<u>(80,526)</u>
INCOME (LOSS) BEFORE TRANSFERS.....		<u>313,891</u>
TRANSFERS		
Transfers in.....		483,483
Transfers out.....		<u>(157,341)</u>
TOTAL TRANSFERS.....		<u>326,142</u>
CHANGE IN FUND NET ASSETS.....		640,033
FUND NET ASSETS AT BEGINNING OF YEAR.....		<u>4,871,852</u>
FUND NET ASSETS AT END OF YEAR.....	\$	<u><u>5,511,885</u></u>

See notes to basic financial statements.

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Business-Type Activities - Enterprise Fund
	Water/Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users.....	\$ 1,461,321
Payments to vendors.....	(729,702)
Payments to employees.....	(312,993)
	418,626
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in.....	483,483
Transfers out.....	(157,341)
	326,142
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from the issuance of bonds and notes.....	209,000
Acquisition and construction of capital assets.....	(450,197)
Principal payments on bonds and notes.....	(386,534)
Interest expense.....	(90,448)
	(718,179)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income.....	9,922
	36,511
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	
	36,511
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	
(Includes \$108,173 reported as restricted cash and cash equivalents).....	127,453
	127,453
CASH AND CASH EQUIVALENTS AT END OF YEAR	
(Includes \$71,447 reported as restricted cash and cash equivalents).....	\$ 163,964
	163,964
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES	
Operating income (loss).....	\$ 394,417
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation.....	209,122
Changes in assets and liabilities:	
Utility liens.....	707
User charges.....	(190,457)
Accrued payroll.....	5,837
Compensated absences.....	(1,000)
	24,209
Total adjustments.....	24,209
	418,626
NET CASH FROM OPERATING ACTIVITIES.....	\$ 418,626

See notes to basic financial statements.

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	Agency Funds
ASSETS	
Cash and cash equivalents.....	\$ 33,132
LIABILITIES	
Current liabilities:	
Warrants payable.....	1,760
Liabilities due depositors.....	31,372
Total liabilities.....	\$ 33,132

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 Nahant, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen (Board) and an appointed Town Administrator.

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 one joint venture 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 venture and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2008 Assessment</u>
Northeastern Metropolitan Regional Vocational School District.....	To provided vocational educational services	100 Hemlock Road Wakefield, MA 01880	\$ 94,658

The Town is indirectly liable for the Northeast Metropolitan Regional Vocational School District's (District) 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 of activities) report information on all 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 primarily supported by user fees.

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.

Fiduciary funds are reported by fund type.

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

Government-Wide and Fund Financial Statements

The government-wide and enterprise fund 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.

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

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, 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 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 upon Town Meeting approval.

The *school construction fund* is a capital projects fund used to account for financial resources to be used for the construction of the Johnson School.

The *community preservation fund* is a special revenue fund used to account for the 3% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. Property exempt from the surcharge consists of the first \$100,000 of all residential property and also property owned by low income or seniors with a low or moderate income as defined by Massachusetts Department of Revenue (DOR) guidelines. Disbursements from this fund must originate from the Community Preservation Committee and be approved by Town Meeting.

The *coast guard houses fund* is a capital projects fund used to account for financial resources used for the acquisition and renovation of land and buildings (houses) formerly owned by the federal government. The Town, through a contractual agreement with a property manager, is renting these houses to citizens. The revenues and expenditures related to the housing rentals are accounted for in the general fund.

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 enterprise 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.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby 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 fund is reported:

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

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 government's programs.

The following fiduciary fund is reported:

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist of primarily of rent payments held in escrow and student activity funds. 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, Real Estate Tax Deferrals, 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 during the fourth quarter of each fiscal 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.

Community Preservation Surcharges

Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on November 1st and May 1st and is subject to penalties and interest if they are not paid by the due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year issued.

Water and Sewer and Utility Liens

User fees are levied tri-annually 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 during the fourth quarter of each fiscal year and are 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 issued.

Trash

Trash fees are levied annually for each type of property that utilizes the collection service and are based upon a third party waste collection contract. The contract is funded entirely from residence billings. Trash fees are recorded as receivables in the fiscal year issued.

Parking Violations

Parking tickets are issued for various parking violations and are recorded as receivables in the fiscal year issued.

Departmental and Other

Departmental and other receivables primarily consist of amounts due from ambulance charges. These receivables are recorded when the applicable service has been performed.

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.

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 and other excise taxes
- Parking violations
- Departmental and other

As of June 30, 2008, the allowance for uncollectible amounts for personal property taxes, motor vehicle and other excise taxes and departmental and other receivables 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, real estate tax deferrals and tax liens
- Community preservation surcharges
- Water and sewer and utility liens
- Trash

Intergovernmental 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 and Proprietary Fund Financial Statements

Capital assets, which consist of land, works of art, land improvements, buildings and improvements, machinery and equipment, library books, vehicles and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type 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. Construction period interest is not capitalized on constructed capital assets.

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 and works of art) 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.....	10 - 30
Buildings and improvements.....	6 - 40
Machinery and equipment.....	3 - 40
Library books.....	3 - 10
Vehicles.....	3 - 15
Infrastructure.....	5 - 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 subject to capitalization.

Governmental Fund 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. Any residual balances outstanding between the governmental activities and business-type activities are reported 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.

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. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

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

M. 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:

"Community preservation" represents amounts restricted for the purpose of acquiring land for conservation, recreational, and affordable housing purposes.

"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.

"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 2009 operating budget.

*O. Long-term Debt*Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements 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).

Investment income from the proprietary fund is retained in the fund.

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 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 upon employee retirements and resignations.

*R. Post Retirement Benefits*Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided (on a pay-as-you-go basis) for retired employees and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's 50% to 65% (dependent on the plan chosen) share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2008, this expenditure totaled approximately \$163,000. There were 46 participants eligible to receive benefits at June 30, 2008.

S. Use of Estimates

Government-Wide and Fund Financial Statements

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

T. Reclassifications

Certain accounts on the fiscal year 2007 financial statements have been reclassified for consistency with the 2008 classifications and presentation.

U. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

The total column 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 annual budget subsequent to Annual Town Meeting approval 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 2008 approved budget for the general fund authorized \$10,228,240 in appropriations and other amounts to be raised. During fiscal year 2008, supplemental appropriations totaling \$50,000 were authorized.

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

The budgetary comparison schedule presented in the accompanying required supplementary information presents comparisons of the legally adopted budget, as amended, with actual results. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

B. Fund Deficits

At June 30, 2008, the following fund deficits exist:

Fund	Amount	Funding Source
Coast Guard houses (major fund).....	\$ 1,968,158	Issuance of long-term debt
School roof (nonmajor fund).....	175,000	Issuance of long-term debt
Fire vehicle (nonmajor fund).....	40,000	Issuance of long-term debt
DPW truck (nonmajor fund).....	34,991	Issuance of long-term debt

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2008, expenditures exceeded appropriations for state and county charges.

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. The deposits and investments of the permanent funds are held separately from other Town funds.

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 does not have a policy for custodial credit risk of deposits. As of June 30, 2008, \$2,008,598 of the Town's bank balance of \$2,448,804 was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Investments Summary

The Town's investment at June 30, 2008 consisted of \$134,413 in MMDT.

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town does not have a policy for interest rate risk of debt securities.

Investments - Credit Risk of Debt Securities

Credit risk for investments 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, 2008, the Town's investment in MMDT did not have a credit quality rating.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2008, 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.....	\$ 133,948	\$ -	\$ 133,948
Real estate tax deferrals.....	108,368	-	108,368
Tax and trash liens.....	83,096	-	83,096
Motor vehicle and other excise taxes.....	68,589	-	68,589
Community preservation surcharges.....	2,797	-	2,797
Trash.....	3,943	-	3,943
Parking violations.....	116,300	(99,695)	16,605
Departmental and other.....	40,467	-	40,467
Intergovernmental.....	6,600	-	6,600
	<u>\$ 564,108</u>	<u>\$ (99,695)</u>	<u>\$ 464,413</u>

At June 30, 2008, receivables for the water/sewer enterprise fund, including the applicable allowances for uncollectible amounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water.....	\$ 302,096	\$ -	\$ 302,096
Sewer.....	191,685	-	191,685
Utility liens.....	4,067	-	4,067
	<u>\$ 497,848</u>	<u>\$ -</u>	<u>\$ 497,848</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. The following identifies the various components of *deferred revenue* reported in the governmental funds:

<u>Receivable type:</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Real estate and personal property taxes.....	\$ 133,948	\$ -	\$ 133,948
Real estate tax deferrals.....	108,368	-	108,368
Tax and trash liens.....	81,954	1,142 (a)	83,096
Motor vehicle and other excise taxes.....	68,589	-	68,589
Community preservation surcharges.....	-	2,797 (a)	2,797
Trash.....	3,943	-	3,943
Parking violations.....	16,605	-	16,605
Departmental and other.....	40,467	-	40,467
Intergovernmental (state chapter 90 roadway).....	-	6,600 (b)	6,600
Total.....	\$ 453,874	\$ 10,539	\$ 464,413

- (a) Community preservation fund (major fund)
- (b) Nonmajor governmental funds

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 7,642,275	\$ 21,610	\$ -	\$ 7,663,885
Works of art.....	107,500	-	-	107,500
Total capital assets not being depreciated.....	<u>7,749,775</u>	<u>21,610</u>	<u>-</u>	<u>7,771,385</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	526,050	2,858	-	528,908
Buildings and improvements.....	13,276,272	335,414	-	13,611,686
Machinery and equipment.....	1,747,068	324,460	-	2,071,528
Library books.....	373,972	38,687	-	412,659
Vehicles.....	1,523,501	96,298	(49,798)	1,570,001
Infrastructure.....	2,246,959	71,137	-	2,318,096
Total capital assets being depreciated.....	<u>19,693,822</u>	<u>868,854</u>	<u>(49,798)</u>	<u>20,512,878</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(227,032)	(20,595)	-	(247,627)
Buildings and improvements.....	(2,829,121)	(366,863)	-	(3,195,984)
Machinery and equipment.....	(972,976)	(149,387)	-	(1,122,363)
Library books.....	(215,100)	(32,606)	-	(247,706)
Vehicles.....	(1,071,920)	(88,696)	45,238	(1,115,378)
Infrastructure.....	(1,017,410)	(109,771)	-	(1,127,181)
Total accumulated depreciation.....	<u>(6,333,559)</u>	<u>(767,918)</u>	<u>45,238</u>	<u>(7,056,239)</u>
Total capital assets being depreciated, net.....	<u>13,360,263</u>	<u>100,936</u>	<u>(4,560)</u>	<u>13,456,639</u>
Total governmental activities capital assets, net.....	<u>\$ 21,110,038</u>	<u>\$ 122,546</u>	<u>\$ (4,560)</u>	<u>\$ 21,228,024</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
<u>Capital assets being depreciated:</u>				
Infrastructure.....	\$ 9,738,321	\$ 295,483	\$ -	\$ 10,033,804
<u>Less accumulated depreciation for:</u>				
Infrastructure.....	(2,847,132)	(209,122)	-	(3,056,254)
Total business-type activities capital assets, net.....	<u>\$ 6,891,189</u>	<u>\$ 86,361</u>	<u>\$ -</u>	<u>\$ 6,977,550</u>

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

Governmental Activities:

General government.....	\$ 88,089
Public safety.....	132,087
Education.....	232,198
Public works.....	195,220
Health and human services.....	1,100
Culture and recreation.....	119,224

Total depreciation expense - governmental activities..... \$ 767,918

Business-Type Activities:

Water/Sewer.....	<u>\$ 209,122</u>
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NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2008, are summarized as follows:

<u>Transfers Out:</u>	<u>Transfers In:</u>				<u>Total</u>
	<u>General Fund</u>	<u>Coast Guard Houses Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water/Sewer Enterprise Fund</u>	
General Fund.....	\$ -	\$ 117,000	\$ 67,000	\$ 483,483	\$ 667,483 (1)
Water/Sewer Enterprise Fund.....	157,341	-	-	-	157,341 (2)
	<u>\$ 157,341</u>	<u>\$ 117,000</u>	<u>\$ 67,000</u>	<u>\$ 483,483</u>	<u>\$ 824,824</u>

(1) Represents budgeted transfers to the coast guard houses fund to pay down a short-term note (\$117,000), the retirement special revenue fund (\$15,000), the wharf insurance special revenue fund (\$2,000), the road construction capital projects fund (\$50,000) and the water/sewer enterprise fund to pay debt service (\$483,483).

(2) Represents transfer of indirect costs to the general fund (\$157,341).

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 and expenses for short-term borrowings are accounted for in the general fund and water/sewer enterprise fund, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2008, is as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2007	Increases	Decreases	Balance at 6/30/2008
BAN	Coast guard houses.....	09/14/06	09/13/07	4.00%	\$ 2,100,000	\$ -	\$ (2,100,000)	\$ -
BAN	DPW truck.....	07/12/07	07/10/08	4.15%	-	35,000	-	35,000
BAN	Fire truck.....	07/12/07	07/10/08	4.15%	-	40,000	-	40,000
BAN	School roof.....	07/12/07	07/10/08	4.15%	-	175,000	-	175,000
BAN	Forty steps beach.....	07/12/07	07/10/08	4.15%	-	150,000	-	150,000
RAN	Revenue anticipation note.....	08/29/07	05/15/08	4.25%	-	850,000	(850,000)	-
BAN	Coast guard houses.....	09/13/07	09/12/08	4.00%	-	1,983,000	-	1,983,000
Total.....					\$ 2,100,000	\$ 3,233,000	\$ (2,950,000)	\$ 2,383,000

Subsequent Events

On July 10, 2008, the Town renewed the DPW truck, fire truck and school roof BANs in the amount of \$35,000, \$40,000 and \$175,000, respectively, at an interest rate of 2.30% and maturity date of November 13, 2008.

On July 10, 2008, the Town paid down \$50,000 of the forty steps beach BAN and renewed the BAN in the amount of \$100,000 at an interest rate of 2.40% and maturity date of July 10, 2009.

On July 10, 2008, the Town issued a RAN in the amount of \$1,400,000 at an interest rate of 2.35% and maturity date of November 5, 2008.

On September 12, 2008, the Town paid down \$117,000 of the Coast Guard houses BAN and renewed the BAN in the amount of \$1,866,000 at an interest rate of 2.50% and maturity date of September 11, 2009.

Notes Payable – Enterprise Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2007	Increases	Decreases	Balance at 6/30/2008
BAN	Pump station.....	07/12/07	07/10/08	4.15%	\$ -	\$ 75,000	\$ -	\$ 75,000

Subsequent Event

On July 10, 2008, the Town renewed the pump station BAN in the amount of \$75,000 at an interest rate of 2.30% and maturity date of November 13, 2008.

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, 2008, and the debt service requirements are as follows:

Bonds and Notes Payable – Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
Golf course project*.....	10.25%	\$ 180,000	\$ -	\$ (60,000)	\$ 120,000
Library bonds.....	4.50% - 4.75%	30,000	-	(15,000)	15,000
School remodeling.....	3.75% - 5.00%	5,693,580	-	(303,580)	5,390,000
Ambulance.....	4.00%	41,100	-	(41,100)	-
Roads and sidewalks.....	4.00%	51,120	-	(26,120)	25,000
Equipment.....	4.00%	67,400	-	(23,400)	44,000
Computers.....	4.00%	37,650	-	(13,650)	24,000
Remodeling.....	4.00%	40,100	-	(9,100)	31,000
School equipment.....	4.00%	7,300	-	(7,300)	-
Other equipment.....	4.00%	25,750	-	(9,750)	16,000
Coast Guard station.....	4.70%	360,000	-	(90,000)	270,000
Total governmental funds.....		\$ 6,534,000	\$ -	\$ (599,000)	\$ 5,935,000

* Federally taxable general obligation bonds

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 550,000	\$ 244,846	\$ 794,846
2010.....	505,000	219,310	724,310
2011.....	390,000	195,830	585,830
2012.....	300,000	179,600	479,600
2013.....	300,000	167,975	467,975
2014.....	300,000	156,725	456,725
2015.....	300,000	143,600	443,600
2016.....	300,000	129,350	429,350
2017.....	300,000	115,100	415,100
2018.....	300,000	101,600	401,600
2019.....	300,000	89,600	389,600
2020.....	300,000	77,600	377,600
2021.....	300,000	65,600	365,600
2022.....	300,000	53,600	353,600
2023.....	300,000	41,600	341,600
2024.....	300,000	29,600	329,600
2025.....	300,000	17,600	317,600
2026.....	290,000	5,800	295,800
Total.....	\$ <u>5,935,000</u>	\$ <u>2,034,936</u>	\$ <u>7,969,936</u>

Bonds and Notes Payable - Enterprise Fund

Project	Interest Rate	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
Sewer project.....	5.00%	\$ 520,000	\$ -	\$ (32,500)	\$ 487,500
Sewer project.....	5.00%	127,300	-	(7,400)	119,900
Sewer project.....	5.00%	178,790	-	(9,410)	169,380
Water and sewer projects.....	6.70%-7.00%	195,000	-	(50,000)	145,000
Water and sewer projects.....	5.60%-5.95%	100,000	-	(100,000)	-
Water projects.....	4.50%-4.75%	95,000	-	(50,000)	45,000
Water note (MWRA).....	0.00%	53,249	-	(13,312)	39,937
Water note (MWRA).....	0.00%	66,561	-	(13,312)	53,249
Water note (MWRA).....	0.00%	80,400	-	(13,400)	67,000
Water note (MWRA).....	0.00%	93,800	-	(13,400)	80,400
Water note (MWRA).....	0.00%	241,200	-	(26,800)	214,400
Water note (MWRA).....	0.00%	-	134,000	-	134,000
Sewer project.....	3.75% - 5.00%	150,000	-	(15,000)	135,000
Sewer project.....	3.75% - 5.00%	300,000	-	(30,000)	270,000
Sewer project.....	4.00%	32,000	-	(12,000)	20,000
Total enterprise fund.....		<u>\$ 2,233,300</u>	<u>\$ 134,000</u>	<u>\$ (386,534)</u>	<u>\$ 1,980,766</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. The financial assistance is in the form of interest free loans that are payable in ten equal annual installments. During fiscal year 2008, \$134,000 was received from the program. At June 30, 2008, the outstanding principal amount of MWRA loans totaled \$588,986.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 292,934	\$ 66,860	\$ 359,794
2010.....	247,934	57,624	305,558
2011.....	232,935	49,659	282,594
2012.....	174,623	42,244	216,867
2013.....	161,310	38,036	199,346
2014.....	147,910	33,882	181,792
2015.....	134,510	29,448	163,958
2016.....	134,510	24,845	159,355
2017.....	107,710	20,242	127,952
2018.....	62,710	16,650	79,360
2019.....	49,310	14,185	63,495
2020.....	49,310	11,720	61,030
2021.....	49,310	9,255	58,565
2022.....	49,310	6,788	56,098
2023.....	49,310	4,323	53,633
2024.....	16,810	1,858	18,668
2025.....	10,910	1,018	11,928
2026.....	9,410	470	9,880
Total.....	\$ <u>1,980,766</u>	\$ <u>429,107</u>	\$ <u>2,409,873</u>

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, 2008, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Coast guard houses.....	\$ 1,983,000
Wharf renovations.....	700,000
School roof.....	175,000
Forty steps beach.....	150,000
School road construction.....	125,000
Police, fire and DPW buildings.....	100,000
Departmental equipment.....	100,000
Pump stations.....	150,000
Fire truck.....	40,000
DPW truck.....	35,000
Total.....	\$ <u>3,558,000</u>

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2008, the following changes occurred in long-term liabilities:

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 6,534,000	\$ -	\$ (599,000)	\$ 5,935,000	\$ 550,000
Compensated absences.....	316,000	22,000	-	338,000	33,800
Total.....	<u>\$ 6,850,000</u>	<u>\$ 22,000</u>	<u>\$ (599,000)</u>	<u>\$ 6,273,000</u>	<u>\$ 583,800</u>
Business-type Activities:					
Bonds and notes payable.....	\$ 2,233,300	\$ 134,000	\$ (386,534)	\$ 1,980,766	\$ 292,934
Compensated absences.....	12,000	-	(1,000)	11,000	1,100
Total.....	<u>\$ 2,245,300</u>	<u>\$ 134,000</u>	<u>\$ (387,534)</u>	<u>\$ 1,991,766</u>	<u>\$ 294,034</u>

The governmental activities long-term liabilities will be liquidated from the general fund and community preservation fund. The business-type activities long-term liabilities will be liquidated from the water/sewer enterprise fund with subsidies from 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 participates in a premium-based health care and workers' compensation plan for its active and retired 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 Essex Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Essex 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 Massachusetts Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. 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 Essex Retirement Board 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 491 Maple Street, Danvers, Massachusetts, 01923.

Funding Policy – Chapter 32 of MGL governs the contributions of plan members and the Town. 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 annual covered payroll. The Town's contributions to the System for the fiscal years ended June 30, 2008, 2007, and 2006 were \$358,682, \$340,826, and \$302,506, respectively, which equaled its required contribution for each fiscal year.

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 2008 totaled approximately \$13,700.

NOTE 11 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators 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 \$584,000 for the fiscal year ended June 30, 2008, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 12 - COMMITMENTS

The Town has entered into, or is planning to enter into, contracts totaling \$1,100,000 for wharf renovations, school road construction, police, fire and public works buildings, departmental equipment and pump stations.

NOTE 13 - 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, 2008, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2008.

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 14 - OPERATING LEASES

The Town (Lessor) has entered into an operating lease agreement (Agreement) with Kelley Greens at Nahant (Lessee) to manage the Kelley Greens Golf Club (Golf Club). The Agreement provides for a flat rate lease fee for each year of the contract, commencing January 1st of each year. The Lessee may choose to reduce the lease fee, up to an amount equal to two (2) months rent per year by completing capital improvements as approved by the Town. The contract expires on December 31, 2011 with an option to renew for an additional five-year term.

During fiscal year 2008, the Town received approximately \$89,000 in rental fees related to the Golf Club. Rental requirements in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2009.....	\$ 114,002
2010.....	116,002
2011.....	118,002
2012.....	59,501

NOTE 15 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

The Town implemented the following GASB pronouncements during fiscal year 2008:

- Statement #48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. The implementation of this Statement had no impact on the financial statements.
- Statement #50, Pension Disclosures. This Statement enhances pension disclosures in the notes to financial statements (see pages 48 and 49) and required supplementary information (see pages 54-56) by state and local government employers that provide pension benefits.

NOTE 16 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following 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 #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 #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.
- Statement #52, Land and Other Real Estate Held as Investments by Endowments, 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 #53, Accounting and Financial Reporting for Derivative Instruments, 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 respective implementation dates.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget	Actual
REVENUES					
Real estate and personal property taxes.....	\$ -	\$ 7,071,822	\$ -	\$ 7,071,822	\$ 7,018,253
Motor vehicle and other excise taxes.....	-	480,918	-	480,918	478,053
Tax liens.....	-	-	-	-	32,121
Payments in lieu of taxes.....	-	2,057	-	2,057	-
Charges for services.....	-	7,330	-	7,330	2,613
Trash disposal.....	-	362,365	-	362,365	364,121
Intergovernmental.....	-	980,771	-	980,771	1,060,413
Penalties and interest on taxes.....	-	23,441	-	23,441	24,101
Licenses, permits and fees.....	-	420,771	-	420,771	480,074
Fines and forfeitures.....	-	47,292	-	47,292	49,081
Departmental.....	-	67,959	-	67,959	70,471
Investment income.....	-	94,890	-	94,890	39,614
TOTAL REVENUES.....	-	9,559,616	-	9,559,616	9,618,915
EXPENDITURES					
Current:					
General government.....	29,001	866,073	(11,000)	884,074	786,568
Public safety.....	500	1,958,374	11,000	1,969,874	1,962,370
Education.....	-	3,225,202	38,029	3,263,231	3,255,820
Public works.....	-	472,093	54,093	526,186	508,271
Trash disposal.....	-	362,365	-	362,365	355,065
Health and human services.....	-	42,900	-	42,900	42,157
Culture and recreation.....	-	241,947	-	241,947	229,015
Pension benefits.....	-	395,750	(22,436)	373,314	372,385
Employee benefits.....	-	765,587	(80,593)	684,994	675,950
Property and liability insurance.....	-	185,069	2,407	187,476	186,602
State and county charges.....	-	104,350	-	104,350	185,165
Debt service:					
Principal.....	-	619,500	(110,500)	509,000	509,000
Interest.....	-	490,547	-	490,547	486,242
TOTAL EXPENDITURES.....	29,501	9,729,757	(119,000)	9,640,258	9,554,610
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(29,501)	(170,141)	119,000	(80,642)	64,305
OTHER FINANCING SOURCES (USES)					
Transfers in.....	-	157,341	-	157,341	157,341
Premium from issuance of bonds and notes.....	-	-	-	-	9,071
Transfers out.....	-	(498,483)	(169,000)	(667,483)	(667,483)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(341,142)	(169,000)	(510,142)	(501,071)
NET CHANGE IN FUND BALANCE.....	(29,501)	(511,283)	(50,000)	(590,784)	(436,766)
FUND BALANCE AT BEGINNING OF YEAR.....	906,976	906,976	906,976	906,976	906,976
FUND BALANCE AT END OF YEAR.....	\$ 877,475	\$ 395,693	\$ 856,976	\$ 316,192	\$ 470,210

See notes to required supplementary information.

Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ -	\$ 7,018,253	\$ (53,569)
-	478,053	(2,865)
-	32,121	32,121
-	-	(2,057)
-	2,613	(4,717)
-	364,121	1,756
-	1,060,413	79,642
-	24,101	660
-	480,074	59,303
-	49,081	1,789
-	70,471	2,512
-	39,614	(55,276)
-	9,618,915	59,299
14,173	800,741	83,333
-	1,962,370	7,504
-	3,255,820	7,411
2,200	510,471	15,715
-	355,065	7,300
-	42,157	743
-	229,015	12,932
-	372,385	929
531	676,481	8,513
-	186,602	874
-	185,165	(80,815)
-	509,000	-
-	486,242	4,305
16,904	9,571,514	68,744
(16,904)	47,401	128,043
-	157,341	-
-	9,071	9,071
-	(667,483)	-
-	(501,071)	9,071
(16,904)	(453,670)	137,114
906,976	906,976	-
\$ 890,072	\$ 453,306	\$ 137,114

PENSION PLAN SCHEDULES

The following schedules provide information related to the System as a whole, for which the Town is one participating employer:

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

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)
01/01/06	\$ 261,327,047	\$ 375,593,562	\$ 114,266,515	69.6%	\$ 98,641,094	115.8%
01/01/04	229,852,971	333,396,222	103,543,251	68.9%	93,404,002	110.9%
01/01/02	218,346,198	287,390,715	69,044,517	76.0%	85,005,338	81.2%
01/01/00	190,363,700	253,847,100	63,483,400	75.0%	69,525,900	91.3%
01/01/99	180,034,700	268,386,000	88,351,300	67.1%	89,645,300	98.6%
01/01/98	151,293,900	245,965,100	94,671,200	61.5%	85,785,000	110.4%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2002	\$ 11,237,100	100
2003	11,784,852	100
2004	12,648,657	100
2005	14,609,198	100
2006	15,274,181	100
2007	16,294,571	100

The following schedule provides information related to the Town's portion of the System's ARC:

TOWN SHARE OF SYSTEM ARC

Fiscal Year Ended June 30	ARC	Percentage of ARC Contributed (%)	District ARC as a Percentage of System ARC (%)
2003	\$ 240,716	100	2.1%
2004	263,062	100	2.2%
2005	268,755	100	2.1%
2006	302,506	100	2.1%
2007	340,826	100	2.2%
2008	358,682	100	2.2%

NOTE 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, 2008, 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.....	\$ 9,618,915	\$ 9,571,514
<u>Adjustments</u>		
To record activity for MTRS on-behalf payments.....	583,634	583,634
Net change in recording short-term interest accrual.....	-	12,828
To record encumbrances and continuing appropriations.....	<u>-</u>	<u>(16,904)</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 10,202,549</u>	<u>\$ 10,151,072</u>

NOTE B - PENSION PLAN

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2006
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Approximate level percent of payroll based on 4.5% annual increases; except level dollar for ERI liability for certain units
Remaining amortization period:	As of July 1, 2006, 2 years remaining for 1992 ERI liability; schedules as selected by the units for 2002 ERI liability, schedules as selected by units for 2003 ERI liability and 22 years for remaining unfunded liability
Asset valuation method:	A preliminary actuarial value is first determined by taking the actuarial value of assets at the beginning of the year and adding assumed investment earnings (as the assumed actuarial rate of return) and the net new money during the year (contributions less benefit payments and administrative expenses). Twenty percent of the difference between the market value of assets and the preliminary actuarial value is added to the preliminary actuarial value. In order that the actuarial value not differ to significantly from the market value of assets, the final actuarial value of assets must be within 20% of the market value of assets.

Actuarial assumptions:

Investment rate of return:	8.50%
Projected salary increases:	5.00%
Cost of living adjustments:	3.00% of first \$12,000 of retirement income