

TOWN OF NAHANT, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

TOWN OF NAHANT, MASSACHUSETTS

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FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of 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, 2009, 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, 2009, 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 September 24, 2009 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.

A handwritten signature in black ink, appearing to read "Sullivan, King & Company, LLC". The signature is written in a cursive, flowing style.

September 24, 2009

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, 2009.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$21,031,222 (net assets). Of this amount, \$1,593,712 (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 \$687,802.
- As of the close of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$502,091, an increase of \$1,008,284 in comparison with the prior year. \$2,186,830 represents unreserved fund balance of the general fund, special revenue funds, nonmajor capital projects funds and permanent funds. The Coast Guard houses major fund deficit totaling \$1,866,000 will be funded through the issuance of long-term debt in future fiscal years.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$440,541, or 4.2 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt increased by \$457,066 during the fiscal year; \$1,300,000 of new debt was issued for various governmental and water/sewer 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 19 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), community preservation (special revenue), and Coast Guard houses (capital projects) funds, each of which are considered to be major funds. Data from the other 15 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 \$21,031,222 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2009	2008	2009	2008	2009	2008
Assets						
Current assets.....	\$ 3,260,182	\$ 2,748,360	\$ 645,754	\$ 661,812	\$ 3,905,936	\$ 3,410,172
Noncurrent assets (excluding capital assets).....	120,173	96,555	-	-	120,173	96,555
Capital assets (net).....	<u>21,188,892</u>	<u>21,228,024</u>	<u>7,084,355</u>	<u>6,977,550</u>	<u>28,273,247</u>	<u>28,205,574</u>
Total assets.....	<u>24,569,247</u>	<u>24,072,939</u>	<u>7,730,109</u>	<u>7,639,362</u>	<u>32,299,356</u>	<u>31,712,301</u>
Liabilities						
Current liabilities (excluding debt).....	593,808	619,204	34,894	61,811	628,702	681,015
Noncurrent liabilities (excluding debt).....	287,100	304,200	13,500	9,900	300,600	314,100
Current debt.....	2,606,500	2,933,000	262,434	367,934	2,868,934	3,300,934
Noncurrent debt.....	<u>5,897,500</u>	<u>5,385,000</u>	<u>1,572,398</u>	<u>1,687,832</u>	<u>7,469,898</u>	<u>7,072,832</u>
Total liabilities.....	<u>9,384,908</u>	<u>9,241,404</u>	<u>1,883,226</u>	<u>2,127,477</u>	<u>11,268,134</u>	<u>11,368,881</u>
Net Assets						
Invested in capital assets (net of related debt).....	12,802,908	12,993,399	5,249,523	4,993,231	18,052,431	17,986,630
Restricted.....	1,385,079	771,595	-	-	1,385,079	771,595
Unrestricted.....	<u>996,352</u>	<u>1,066,541</u>	<u>597,360</u>	<u>518,654</u>	<u>1,593,712</u>	<u>1,585,195</u>
Total net assets.....	<u>\$ 15,184,339</u>	<u>\$ 14,831,535</u>	<u>\$ 5,846,883</u>	<u>\$ 5,511,885</u>	<u>\$ 21,031,222</u>	<u>\$ 20,343,420</u>

The largest portion of the Town's net assets (85.8%) 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 (6.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (7.6% or \$1,593,712) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$996,352 may be used to support governmental activities and \$597,360 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, 2009, the Town's total net assets increased by \$687,802, compared to an increase of \$759,148 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2009	2008	2009	2008	2009	2008
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 1,307,973	\$ 1,338,865	\$ 1,341,869	\$ 1,651,071	\$ 2,649,842	\$ 2,989,936
Operating grants and contributions.....	819,970	877,257	9,338	9,922	829,308	887,179
Capital grants and contributions.....	267,537	167,027	-	-	267,537	167,027
<i>General Revenues:</i>						
Real estate, personal property taxes and tax liens.....	7,147,475	7,132,991	-	-	7,147,475	7,132,991
Motor vehicle and other excise taxes.....	418,261	476,564	-	-	418,261	476,564
Penalties and interest on taxes.....	27,689	24,101	-	-	27,689	24,101
Community preservation surcharges.....	168,223	171,113	-	-	168,223	171,113
Grants and contributions not restricted to specific programs.....	1,215,042	1,206,251	-	-	1,215,042	1,206,251
Unrestricted investment income.....	6,409	39,614	-	-	6,409	39,614
Total revenues.....	11,378,579	11,433,783	1,351,207	1,660,993	12,729,786	13,094,776
Expenses						
General government.....	1,252,228	1,167,831	-	-	1,252,228	1,167,831
Public safety.....	2,663,036	2,702,061	-	-	2,663,036	2,702,061
Education.....	4,848,886	4,876,393	-	-	4,848,886	4,876,393
Public works.....	823,567	1,004,008	-	-	823,567	1,004,008
Trash disposal.....	359,238	355,065	-	-	359,238	355,065
Health and human services.....	120,193	135,111	-	-	120,193	135,111
Culture and recreation.....	370,320	321,878	-	-	370,320	321,878
Debt service - interest.....	345,882	426,179	-	-	345,882	426,179
Water/Sewer.....	-	-	1,258,634	1,347,102	1,258,634	1,347,102
Total expenses.....	10,783,350	10,988,526	1,258,634	1,347,102	12,041,984	12,335,628
Change in net assets before transfers.....	595,229	445,257	92,573	313,891	687,802	759,148
Transfers, net.....	(242,425)	(326,142)	242,425	326,142	-	-
Change in net assets.....	352,804	119,115	334,998	640,033	687,802	759,148
Net assets - beginning of year.....	14,831,535	14,712,420	5,511,885	4,871,852	20,343,420	19,584,272
Net assets - end of year.....	\$ 15,184,339	\$ 14,831,535	\$ 5,846,883	\$ 5,511,885	\$ 21,031,222	\$ 20,343,420

Governmental activities increased the Town's net assets by \$352,804. In the prior year, governmental activities increased the Town's net assets by \$119,115. The key element of this change is an increase in capital grants of approximately \$100,000, primarily consisting of increased state grants for infrastructure projects.

Business-type activities increased the Town's net assets by \$334,998. In the prior year, business-type activities increased the Town's net assets by \$640,033. The key elements of this change are as follows:

- A decrease in both billed and unbilled water/sewer user consumption
- A decrease in transfers from the general fund for debt service of approximately \$80,000

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 \$502,091, an increase in fund balance of \$1,008,284 in comparison with the prior year. \$2,045,150 represents undesignated fund balance of the general fund, special revenue funds, nonmajor capital projects funds and permanent funds. The Coast Guard houses major fund deficit totaling \$1,866,000 will be funded through the issuance of long-term debt 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 been committed to:

- Liquidate contracts and purchase orders of the prior period (\$20,180)
- Perpetual permanent funds (\$25,150)
- Other specific purposes (\$135,931)
- Fund a portion of the fiscal year 2010 operating budget (\$141,680)

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 \$440,541, while total fund balance was \$602,401. 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 4.2% of total general fund expenditures and transfers out, while total fund balance represents 5.8% of that same amount.

The balance of the Town's general fund decreased \$49,000 during the current fiscal year. Although the Town's increase in fund balance on a budgetary basis was less than the final amended budget amount by approximately \$223,000 (excluding encumbrances and continuing appropriations), approximately \$311,000 of reserves were used to fund the fiscal year 2009 budget. In addition, the Town's accrual for short-term debt interest expenditures decreased by approximately \$40,000.

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

The fund balance of the stabilization fund (special revenue) increased by \$1,453 during the current fiscal year. This is attributable to investment income.

The fund balance of the community preservation fund (special revenue) increased by \$596,691 during the current fiscal year. The fund recognized \$169,296 in surcharges, \$171,436 in intergovernmental revenues and \$8,462 of investment income. The fund also received \$625,000 of bond proceeds. Expenditures of \$377,503 were incurred during the fiscal year.

The fund balance of the Coast Guard houses fund (capital projects) increased by \$102,158 during the current fiscal year. The fund received \$117,000 of transfer in from the general fund during the fiscal year to pay down short-term debt. Expenditures of \$14,842 were incurred 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 \$597,360. The water/sewer fund had an increase in net assets for the year of \$334,998. 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 \$10,096,717 was decreased by \$45,825 (-0.5%) during the fiscal year. The following table summarizes the decrease:

<u>Purpose of Decrease</u>	<u>Amount</u>	<u>Funding Source</u>
Employee benefits.....	\$ (24,396)	Intergovernmental revenues reduction
School department.....	<u>(21,429)</u>	Intergovernmental revenues reduction
Total decrease.....	<u>\$ (45,825)</u>	

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 increase in fund balance that was less than the final amended budget amount by approximately \$202,000.

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 \$28,273,247 (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 0.2% (a 0.2% decrease for governmental activities and a 0.4% increase for business-type activities).

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

- Continued upgrades of road and sidewalk infrastructure (\$267,000)
- Continued upgrades of the water and sewer infrastructure (\$221,000)
- Masonry restoration to various Town buildings (\$138,000)

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>	
	2009	2008	2009	2008	2009	2008
Land.....	\$ 7,663,885	\$ 7,663,885	\$ -	\$ -	\$ 7,663,885	\$ 7,663,885
Works of art.....	107,500	107,500	-	-	107,500	107,500
Land improvements.....	267,936	281,281	-	-	267,936	281,281
Buildings and improvements.....	10,288,521	10,415,702	-	-	10,288,521	10,415,702
Machinery and equipment.....	953,138	949,165	96,178	-	1,049,316	949,165
Library books.....	167,403	164,953	-	-	167,403	164,953
Vehicles.....	400,247	454,623	-	-	400,247	454,623
Infrastructure.....	1,340,262	1,190,915	6,988,177	6,977,550	8,328,439	8,168,465
Total capital assets.....	\$ 21,188,892	\$ 21,228,024	\$ 7,084,355	\$ 6,977,550	\$ 28,273,247	\$ 28,205,574

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 \$8,372,832, 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>	
	2009	2008	2009	2008	2009	2008
General obligation bonds.....	\$ 6,298,000	\$ 5,545,000	\$ 1,339,470	\$ 1,391,780	\$ 7,637,470	\$ 6,936,780
Federally taxable general obligation bonds.....	60,000	120,000	-	-	60,000	120,000
State house notes.....	180,000	270,000	-	-	180,000	270,000
MWRA notes.....	-	-	495,362	588,986	495,362	588,986
Total bonds and notes.....	\$ 6,538,000	\$ 5,935,000	\$ 1,834,832	\$ 1,980,766	\$ 8,372,832	\$ 7,915,766

The Town's total bonded debt increased by \$457,066 (5.8%) during the current fiscal year; \$1,300,000 of new debt was issued for various governmental and water/sewer 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 2010 general fund operating budget was influenced by three major factors: decreased revenue, contractual salary increases and limitations on the property tax levy imposed by Proposition 2 ½.

Budgeted revenue decreases were mainly due to a 15% reduction in state aid, a 12% reduction in motor vehicle excise revenue and an 80% reduction in earnings on investment.

Approximately 90% of school employees and 75% of municipal employees are covered by collective bargaining agreements. In fiscal year 2010, 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 \$157,493 (2.2%).

Due to lower debt service, no new debt and no new capital, the Town was able to approve a budget without reducing any staff.

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, 2009

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents.....	\$ 1,481,318	\$ 214,591	\$ 1,695,909
Restricted cash and cash equivalents.....	1,468,078	43,568	1,511,646
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	92,601	-	92,601
Tax and utility liens.....	110,714	3,385	114,099
Motor vehicle and other excise taxes.....	60,550	-	60,550
Community preservation surcharges.....	1,724	-	1,724
Water.....	-	201,523	201,523
Sewer.....	-	182,687	182,687
Trash.....	8,725	-	8,725
Parking violations.....	13,150	-	13,150
Departmental and other.....	23,322	-	23,322
Total current assets.....	3,260,182	645,754	3,905,936
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	120,173	-	120,173
Capital assets not being depreciated.....	7,771,385	-	7,771,385
Capital assets, net of accumulated depreciation.....	13,417,507	7,084,355	20,501,862
Total noncurrent assets.....	21,309,065	7,084,355	28,393,420
Total assets.....	24,569,247	7,730,109	32,299,356
LIABILITIES			
Current liabilities:			
Warrants payable.....	299,350	25,793	325,143
Accrued payroll.....	119,676	7,601	127,277
Other liabilities.....	22,753	-	22,753
Accrued interest.....	120,129	-	120,129
Compensated absences.....	31,900	1,500	33,400
Short-term notes payable.....	1,966,000	-	1,966,000
Long-term bonds and notes payable.....	640,500	262,434	902,934
Total current liabilities.....	3,200,308	297,328	3,497,636
Noncurrent liabilities:			
Compensated absences.....	287,100	13,500	300,600
Long-term bonds and notes payable.....	5,897,500	1,572,398	7,469,898
Total noncurrent liabilities.....	6,184,600	1,585,898	7,770,498
Total liabilities.....	9,384,908	1,883,226	11,268,134
NET ASSETS			
Invested in capital assets, net of related debt.....	12,802,908	5,249,523	18,052,431
Restricted for:			
Community preservation.....	1,158,101	-	1,158,101
Permanent funds:			
Expendable.....	65,897	-	65,897
Nonexpendable.....	25,150	-	25,150
Other specific purposes.....	135,931	-	135,931
Unrestricted.....	996,352	597,360	1,593,712
Total net assets.....	\$ 15,184,339	\$ 5,846,883	\$ 21,031,222

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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.....	\$ 1,252,228	\$ 470,656	\$ 20,498	\$ 171,436	\$ (589,638)
Public safety.....	2,663,036	73,679	65,082	-	(2,524,275)
Education.....	4,848,886	249,669	681,551	-	(3,917,666)
Public works.....	823,567	101,400	2,970	96,101	(623,096)
Trash disposal.....	359,238	375,030	-	-	15,792
Health and human services.....	120,193	1,315	5,622	-	(113,256)
Culture and recreation.....	370,320	36,224	36,486	-	(297,610)
Debt service - interest.....	345,882	-	7,761	-	(338,121)
Total governmental activities.....	10,783,350	1,307,973	819,970	267,537	(8,387,870)
Business-type activities:					
Water/Sewer.....	1,258,634	1,341,869	9,338	-	92,573
Total primary government.....	\$ 12,041,984	\$ 2,649,842	\$ 829,308	\$ 267,537	\$ (8,295,297)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (8,387,870)	\$ 92,573	\$ (8,295,297)
<i>General revenues:</i>			
Real estate, personal property taxes and tax liens.....	7,147,475	-	7,147,475
Motor vehicle and other excise taxes.....	418,261	-	418,261
Penalties and interest on taxes.....	27,689	-	27,689
Community preservation surcharges.....	168,223	-	168,223
Grants and contributions not restricted to specific programs.....	1,215,042	-	1,215,042
Unrestricted investment income.....	6,409	-	6,409
<i>Transfers, net</i>	(242,425)	242,425	-
Total general revenues and transfers.....	8,740,674	242,425	8,983,099
Change in net assets.....	352,804	334,998	687,802
Net assets - beginning of year.....	14,831,535	5,511,885	20,343,420
Net assets - end of year.....	\$ 15,184,339	\$ 5,846,883	\$ 21,031,222

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2009

	General	Stabilization	Community Preservation
ASSETS			
Cash and cash equivalents.....	\$ 1,051,857	\$ 78,103	\$ -
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	92,601	-	-
Real estate tax deferrals.....	120,173	-	-
Tax and trash liens.....	108,993	-	1,721
Motor vehicle and other excise taxes.....	60,550	-	-
Community preservation surcharges.....	-	-	1,724
Trash.....	8,725	-	-
Parking violations.....	13,150	-	-
Departmental and other.....	23,322	-	-
Restricted assets:			
Cash and cash equivalents.....	-	-	1,259,016
TOTAL ASSETS.....	\$ 1,479,371	\$ 78,103	\$ 1,262,461
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 274,685	\$ -	\$ 4,360
Accrued payroll.....	112,492	-	-
Other liabilities.....	22,753	-	-
Deferred revenue.....	427,514	-	3,445
Accrued short-term interest.....	39,526	-	-
Short-term notes payable.....	-	-	100,000
TOTAL LIABILITIES.....	876,970	-	107,805
FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	20,180	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	141,680	-	-
Undesignated, reported in:			
General fund.....	440,541	-	-
Special revenue funds.....	-	78,103	1,154,656
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	602,401	78,103	1,154,656
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,479,371	\$ 78,103	\$ 1,262,461

See notes to basic financial statements.

Coast Guard Houses	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 351,358	\$ 1,481,318
-	-	92,601
-	-	120,173
-	-	110,714
-	-	60,550
-	-	1,724
-	-	8,725
-	-	13,150
-	-	23,322
-	209,062	1,468,078
<u>\$ -</u>	<u>\$ 560,420</u>	<u>\$ 3,380,355</u>
\$ -	\$ 20,305	\$ 299,350
-	7,184	119,676
-	-	22,753
-	-	430,959
-	-	39,526
1,866,000	-	1,966,000
<u>1,866,000</u>	<u>27,489</u>	<u>2,878,264</u>
-	-	20,180
-	25,150	25,150
-	135,931	135,931
-	-	141,680
-	-	440,541
-	187,935	1,420,694
(1,866,000)	118,018	(1,747,982)
-	65,897	65,897
<u>(1,866,000)</u>	<u>532,931</u>	<u>502,091</u>
<u>\$ -</u>	<u>\$ 560,420</u>	<u>\$ 3,380,355</u>

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General	Stabilization	Community Preservation
REVENUES			
Real estate and personal property taxes.....	\$ 7,116,917	\$ -	\$ -
Motor vehicle and other excise taxes.....	426,301	-	-
Tax liens.....	33,103	-	-
Community preservation surcharges.....	-	-	169,296
Charges for services.....	2,306	-	-
Trash disposal.....	370,248	-	-
Intergovernmental.....	1,637,149	-	171,436
Penalties and interest on taxes.....	27,689	-	-
Licenses and permits.....	74,752	-	-
Fines and forfeitures.....	47,098	-	-
Departmental.....	501,210	-	-
Contributions.....	-	-	-
Investment income.....	6,409	1,453	8,462
TOTAL REVENUES.....	10,243,182	1,453	349,194
EXPENDITURES			
Current:			
General government.....	809,303	-	226,885
Public safety.....	1,970,369	-	-
Education.....	3,097,060	-	-
Public works.....	451,286	-	-
Trash disposal.....	359,238	-	-
Health and human services.....	26,726	-	-
Culture and recreation.....	275,852	-	30,019
Pension benefits.....	976,777	-	-
Employee benefits.....	690,710	-	-
Property and liability insurance.....	170,767	-	-
State and county charges.....	263,216	-	-
Debt service:			
Principal.....	460,000	-	90,000
Interest.....	316,389	-	30,599
TOTAL EXPENDITURES.....	9,867,693	-	377,503
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	375,489	1,453	(28,309)
OTHER FINANCING SOURCES (USES)			
Transfers in.....	162,063	-	-
Proceeds of bonds and notes.....	-	-	625,000
Premium from issuance of bonds and notes.....	7,761	-	-
Transfers out.....	(594,313)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	(424,489)	-	625,000
NET CHANGE IN FUND BALANCES.....	(49,000)	1,453	596,691
FUND BALANCES AT BEGINNING OF YEAR.....	651,401	76,650	557,965
FUND BALANCES AT END OF YEAR.....	\$ 602,401	\$ 78,103	\$ 1,154,656

See notes to basic financial statements.

Coast Guard Houses	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 7,116,917
-	-	426,301
-	-	33,103
-	-	169,296
-	243,723	246,029
-	-	370,248
-	380,387	2,188,972
-	-	27,689
-	-	74,752
-	-	47,098
-	93,832	595,042
-	90,735	90,735
-	1,766	18,090
<u>-</u>	<u>810,443</u>	<u>11,404,272</u>
14,842	11,314	1,062,344
-	131,906	2,102,275
-	626,600	3,723,660
-	208,209	659,495
-	-	359,238
-	10,245	36,971
-	66,012	371,883
-	-	976,777
-	-	690,710
-	-	170,767
-	-	263,216
-	-	550,000
<u>-</u>	<u>-</u>	<u>346,988</u>
<u>14,842</u>	<u>1,054,286</u>	<u>11,314,324</u>
<u>(14,842)</u>	<u>(243,843)</u>	<u>89,948</u>
117,000	72,825	351,888
-	528,000	1,153,000
-	-	7,761
<u>-</u>	<u>-</u>	<u>(594,313)</u>
<u>117,000</u>	<u>600,825</u>	<u>918,336</u>
102,158	356,982	1,008,284
<u>(1,968,158)</u>	<u>175,949</u>	<u>(506,193)</u>
\$ <u><u>(1,866,000)</u></u>	\$ <u><u>532,931</u></u>	\$ <u><u>502,091</u></u>

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

JUNE 30, 2009

Total governmental fund balances (page 19).....	\$	502,091
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		21,188,892
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		430,959
In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(80,603)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....		(6,538,000)
Compensated absences.....		<u>(319,000)</u>
Net assets of governmental activities (page 15).....	\$	<u>15,184,339</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, 2009

Net change in fund balances - total governmental funds (page 21).....	\$	1,008,284
<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.....		727,947
Depreciation.....		(759,212)
<p>In the statement of activities, the <i>gain or loss</i> on the sale/disposal of capital assets is reported, whereas in the governmental funds, only the proceeds of the sale/disposal 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/disposed.....</p>		
		(7,867)
<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>		
		(33,454)
<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 proceeds.....		(1,153,000)
Bond maturities.....		550,000
<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>		
		1,106
<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.....		19,000
		19,000
Changes in net assets of governmental activities (page 17).....	\$	352,804

See notes to basic financial statements.

PROPRIETARY FUND
STATEMENT OF FUND NET ASSETS

JUNE 30, 2009

	Business-Type Activities - Enterprise Fund
ASSETS	Water/Sewer
Current assets:	
Cash and cash equivalents.....	\$ 214,591
Restricted cash and cash equivalents.....	43,568
Receivables, net of allowance for uncollectible amounts:	
Water.....	201,523
Sewer.....	182,687
Utility liens.....	3,385
Total current assets.....	645,754
Noncurrent assets:	
Capital assets, net of accumulated depreciation.....	7,084,355
Total assets.....	7,730,109
 LIABILITIES	
Current liabilities:	
Warrants payable.....	25,793
Accrued payroll.....	7,601
Compensated absences.....	1,500
Long-term bonds and notes payable.....	262,434
Total current liabilities.....	297,328
Noncurrent liabilities:	
Compensated absences.....	13,500
Long-term bonds and notes payable.....	1,572,398
Total noncurrent liabilities.....	1,585,898
Total liabilities.....	1,883,226
 FUND NET ASSETS	
Invested in capital assets, net of related debt.....	5,249,523
Unrestricted.....	597,360
Total fund net assets.....	\$ 5,846,883

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, 2009

	Business-Type Activities - Enterprise Fund
	Water/Sewer
OPERATING REVENUES	
Charges for services.....	\$ 1,341,869
OPERATING EXPENSES	
Cost of service and administration.....	565,525
MWRA assessment.....	351,096
Lynn assessment.....	53,702
Depreciation.....	214,230
TOTAL OPERATING EXPENSES.....	1,184,553
OPERATING INCOME (LOSS).....	157,316
NONOPERATING REVENUES (EXPENSES)	
Investment income.....	9,338
Interest expense.....	(74,081)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(64,743)
INCOME (LOSS) BEFORE TRANSFERS.....	92,573
TRANSFERS	
Transfers in.....	404,488
Transfers out.....	(162,063)
TOTAL TRANSFERS.....	242,425
CHANGE IN FUND NET ASSETS.....	334,998
FUND NET ASSETS AT BEGINNING OF YEAR.....	5,511,885
FUND NET ASSETS AT END OF YEAR.....	\$ 5,846,883

See notes to basic financial statements.

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-Type Activities - Enterprise Fund
	Water/Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users.....	\$ 1,452,122
Payments to vendors.....	(666,911)
Payments to employees.....	(326,729)
	458,482
NET CASH FROM OPERATING ACTIVITIES.....	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in.....	404,488
Transfers out.....	(162,063)
	242,425
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from the issuance of bonds and notes.....	222,000
Acquisition and construction of capital assets.....	(321,035)
Principal payments on bonds and notes.....	(442,934)
Interest expense.....	(74,081)
	(616,050)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income.....	9,338
	94,195
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	
(Includes \$71,447 reported as restricted cash and cash equivalents).....	163,964
	163,964
CASH AND CASH EQUIVALENTS AT END OF YEAR	
(Includes \$43,568 reported as restricted cash and cash equivalents).....	\$ 258,159
	258,159
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES	
Operating income (loss).....	\$ 157,316
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation.....	214,230
Changes in assets and liabilities:	
Utility liens.....	682
User charges.....	109,571
Warrants payable.....	(23,364)
Accrued payroll.....	(3,953)
Compensated absences.....	4,000
	301,166
Total adjustments.....	301,166
	458,482
NET CASH FROM OPERATING ACTIVITIES.....	
	\$ 458,482
	458,482

See notes to basic financial statements.

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Agency Funds
ASSETS	
Cash and cash equivalents.....	\$ 50,856
LIABILITIES	
Current liabilities:	
Warrants payable.....	2,139
Liabilities due depositors.....	48,717
Total liabilities.....	\$ 50,856

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 2009 Assessment</u>
Northeastern Metropolitan Regional Vocational School District.....	To provided vocational educational services	100 Hemlock Road Wakefield, MA 01880	\$ 85,801

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 *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 Cash Equivalents 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 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, 2009, 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 2010 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, 2009, this expenditure totaled approximately \$161,000. There were 45 participants eligible to receive benefits at June 30, 2009.

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. 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 2009 approved budget for the general fund authorized \$10,096,717 in appropriations. During fiscal year 2009, reductions in appropriations totaling \$45,825 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, 2009, the following fund deficit exists:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Coast Guard houses (major fund).....	\$ 1,866,000	Issuance of long-term debt

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2009, 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, 2009, \$1,062,843 of the Town's bank balance of \$3,195,726 was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Investments Summary

The Town's investment at June 30, 2009 consisted of \$21,033 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. As of June 30, 2009, the Town was not exposed to interest rate risk.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2009, the Town was not exposed to custodial credit risk.

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, 2009, the Town's investment in MMDT did not have a credit quality rating.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2009, 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....	\$ 92,601	\$ -	\$ 92,601
Real estate tax deferrals.....	120,173	-	120,173
Tax and trash liens.....	110,714	-	110,714
Motor vehicle and other excise taxes.....	60,550	-	60,550
Community preservation surcharges.....	1,724	-	1,724
Trash.....	8,725	-	8,725
Parking violations.....	115,880	(102,730)	13,150
Departmental and other.....	23,322	-	23,322
	<u>\$ 533,689</u>	<u>\$ (102,730)</u>	<u>\$ 430,959</u>

At June 30, 2009, 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.....	\$ 201,523	\$ -	\$ 201,523
Sewer.....	182,687	-	182,687
Utility liens.....	3,385	-	3,385
	<u>\$ 387,595</u>	<u>\$ -</u>	<u>\$ 387,595</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>Community Preservation Fund</u>	<u>Total</u>
Real estate and personal property taxes.....	\$ 92,601	\$ -	\$ 92,601
Real estate tax deferrals.....	120,173	-	120,173
Tax and trash liens.....	108,993	1,721	110,714
Motor vehicle and other excise taxes.....	60,550	-	60,550
Community preservation surcharges.....	-	1,724	1,724
Trash.....	8,725	-	8,725
Parking violations.....	13,150	-	13,150
Departmental and other.....	23,322	-	23,322
 Total.....	 \$ 427,514	 \$ 3,445	 \$ 430,959

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 7,663,885	\$ -	\$ -	\$ 7,663,885
Works of art.....	107,500	-	-	107,500
Total capital assets not being depreciated.....	<u>7,771,385</u>	<u>-</u>	<u>-</u>	<u>7,771,385</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	528,908	6,442	-	535,350
Buildings and improvements.....	13,611,686	243,357	-	13,855,043
Machinery and equipment.....	2,071,528	143,874	(99,952)	2,115,450
Library books.....	412,659	35,571	-	448,230
Vehicles.....	1,570,001	32,189	(71,333)	1,530,857
Infrastructure.....	<u>2,318,096</u>	<u>266,514</u>	<u>-</u>	<u>2,584,610</u>
Total capital assets being depreciated.....	<u>20,512,878</u>	<u>727,947</u>	<u>(171,285)</u>	<u>21,069,540</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(247,627)	(19,787)	-	(267,414)
Buildings and improvements.....	(3,195,984)	(370,538)	-	(3,566,522)
Machinery and equipment.....	(1,122,363)	(136,801)	96,852	(1,162,312)
Library books.....	(247,706)	(33,121)	-	(280,827)
Vehicles.....	(1,115,378)	(81,798)	66,566	(1,130,610)
Infrastructure.....	<u>(1,127,181)</u>	<u>(117,167)</u>	<u>-</u>	<u>(1,244,348)</u>
Total accumulated depreciation.....	<u>(7,056,239)</u>	<u>(759,212)</u>	<u>163,418</u>	<u>(7,652,033)</u>
Total capital assets being depreciated, net.....	<u>13,456,639</u>	<u>(31,265)</u>	<u>(7,867)</u>	<u>13,417,507</u>
Total governmental activities capital assets, net.....	<u>\$ 21,228,024</u>	<u>\$ (31,265)</u>	<u>\$ (7,867)</u>	<u>\$ 21,188,892</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ -	\$ 99,616	\$ -	\$ 99,616
Infrastructure.....	10,033,804	221,419	-	10,255,223
Total capital assets being depreciated.....	10,033,804	321,035	-	10,354,839
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	-	(3,438)	-	(3,438)
Infrastructure.....	(3,056,254)	(210,792)	-	(3,267,046)
Total accumulated depreciation.....	(3,056,254)	(214,230)	-	(3,270,484)
Total business-type activities capital assets, net.....	\$ 6,977,550	\$ 106,805	\$ -	\$ 7,084,355

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

Governmental Activities:

General government.....	\$ 91,035
Public safety.....	123,136
Education.....	236,178
Public works.....	183,899
Culture and recreation.....	124,964

Total depreciation expense - governmental activities..... \$ 759,212

Business-Type Activities:

Water/Sewer.....	\$ <u>214,230</u>
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NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2009, are summarized as follows:

Transfers Out:	Transfers In:				Total
	General Fund	Coast Guard Houses Fund	Nonmajor Governmental Funds	Water/Sewer Enterprise Fund	
General Fund.....	\$ -	\$ 117,000	\$ 72,825	\$ 404,488	\$ 594,313 (1)
Water/Sewer Enterprise Fund.....	162,063	-	-	-	162,063 (2)
	\$ <u>162,063</u>	\$ <u>117,000</u>	\$ <u>72,825</u>	\$ <u>404,488</u>	\$ <u>756,376</u>

(1) Represents budgeted transfers to pay down short-term notes (\$139,000), the retirement special revenue fund (\$35,000), the school road capital projects fund (\$12,825), the wharf insurance special revenue fund (\$3,000) and the water/sewer enterprise fund to pay debt service (\$404,488)

(2) Represents transfer of indirect costs to the general fund (\$162,063)

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, 2009, is as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2008	Increases	Decreases	Balance at 6/30/2009
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)	-
BAN	Coast Guard houses	09/13/07	09/12/08	4.00%	1,983,000	-	(1,983,000)	-
BAN	DPW truck	07/10/08	11/13/08	2.30%	-	35,000	(35,000)	-
BAN	Fire truck.....	07/10/08	11/13/08	2.30%	-	40,000	(40,000)	-
BAN	School roof	07/10/08	11/13/08	2.30%	-	175,000	(175,000)	-
BAN	Forty steps beach	07/10/08	07/10/09	2.40%	-	100,000	-	100,000
RAN	Revenue anticipation note.....	07/10/08	11/05/08	2.35%	-	1,400,000	(1,400,000)	-
BAN	Coast Guard houses	09/12/08	09/11/09	2.50%	-	1,866,000	-	1,866,000
Total.....					\$ 2,383,000	\$ 3,616,000	\$ (4,033,000)	\$ 1,966,000

Subsequent Events

On July 10, 2009, the Town paid down \$50,000 of the forty steps beach BAN and renewed the BAN in the amount of \$50,000 at an interest rate of 1.80% and maturity date of July 8, 2010.

On August 12, 2009, the Town issued a RAN in the amount of \$900,000 at an interest rate of 2.00% and maturity date of November 12, 2009.

On September 11, 2009, the Town renewed the Coast Guard houses BAN in the amount of \$1,866,000 at an interest rate of 1.75% and maturity date of October 13, 2009.

Notes Payable - Enterprise Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2008	Increases	Decreases	Balance at 6/30/2009
BAN	Pump station.....	07/12/07	07/10/08	4.15%	\$ 75,000	\$ -	\$ (75,000)	\$ -
BAN	Pump station.....	07/10/08	11/13/08	2.30%	-	75,000	(75,000)	-
Total.....					\$ 75,000	\$ 75,000	\$ (150,000)	\$ -

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, 2009, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
Golf course project*.....	10.25%	\$ 120,000	\$ -	\$ (60,000)	\$ 60,000
Library bonds.....	4.50% - 4.75%	15,000	-	(15,000)	-
School remodeling.....	3.75% - 5.00%	5,390,000	-	(300,000)	5,090,000
Roads and sidewalks.....	4.00%	25,000	-	(25,000)	-
Equipment.....	4.00%	44,000	-	(22,000)	22,000
Computers.....	4.00%	24,000	-	(12,000)	12,000
Remodeling.....	4.00%	31,000	-	(18,000)	13,000
Other equipment.....	4.00%	16,000	-	(8,000)	8,000
Coast Guard station.....	4.70%	270,000	-	(90,000)	180,000
DPW dump truck.....	3.375% - 3.50%	-	28,000	-	28,000
Fire department truck.....	3.375% - 3.50%	-	32,000	-	32,000
Johnson school roof.....	3.375% - 4.25%	-	168,000	-	168,000
Building reconstruction.....	3.375% - 4.25%	-	625,000	-	625,000
School traffic lights.....	3.375% - 4.25%	-	125,000	-	125,000
Remodeling.....	3.375% - 4.25%	-	100,000	-	100,000
Departmental equipment.....	3.375% - 3.50%	-	75,000	-	75,000
Total governmental funds.....		\$ 5,935,000	\$ 1,153,000	\$ (550,000)	\$ 6,538,000

* 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>
2010.....	\$ 640,500	\$ 259,819	\$ 900,319
2011.....	524,500	231,696	756,196
2012.....	433,500	210,943	644,443
2013.....	414,500	195,064	609,564
2014.....	414,500	179,806	594,306
2015.....	404,500	162,717	567,217
2016.....	404,500	144,416	548,916
2017.....	404,500	125,986	530,486
2018.....	404,500	108,177	512,677
2019.....	402,500	91,778	494,278
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>6,538,000</u>	\$ <u>2,001,802</u>	\$ <u>8,539,802</u>

Bonds and Notes Payable - Enterprise Fund

Project	Interest Rate	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
Sewer project.....	5.00%	\$ 487,500	\$ -	\$ (32,500)	\$ 455,000
Sewer project.....	5.00%	119,900	-	(7,400)	112,500
Sewer project.....	5.00%	169,380	-	(9,410)	159,970
Water and sewer projects.....	6.70%-7.00%	145,000	-	(50,000)	95,000
Water projects.....	4.50%-4.75%	45,000	-	(45,000)	-
Water note (MWRA).....	0.00%	39,937	-	(13,312)	26,625
Water note (MWRA).....	0.00%	53,249	-	(13,312)	39,937
Water note (MWRA).....	0.00%	67,000	-	(13,400)	53,600
Water note (MWRA).....	0.00%	80,400	-	(13,400)	67,000
Water note (MWRA).....	0.00%	214,400	-	(26,800)	187,600
Water note (MWRA).....	0.00%	134,000	-	(13,400)	120,600
Sewer project.....	3.75% - 5.00%	135,000	-	(15,000)	120,000
Sewer project.....	3.75% - 5.00%	270,000	-	(30,000)	240,000
Sewer project.....	4.00%	20,000	-	(10,000)	10,000
Water projects.....	3.375% - 4.25%	-	72,000	-	72,000
Sewer project.....	3.375% - 4.25%	-	75,000	-	75,000
Total enterprise fund.....		\$ 1,980,766	\$ 147,000	\$ (292,934)	\$ 1,834,832

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. At June 30, 2009, the outstanding principal amount of MWRA loans totaled \$495,362.

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>
2010.....	\$ 262,434	\$ 62,841	\$ 325,275
2011.....	248,435	54,361	302,796
2012.....	191,123	46,406	237,529
2013.....	176,810	41,649	218,459
2014.....	163,410	36,952	200,362
2015.....	150,010	31,956	181,966
2016.....	150,010	26,753	176,763
2017.....	123,210	21,530	144,740
2018.....	78,210	17,298	95,508
2019.....	56,810	14,344	71,154
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>1,834,832</u>	\$ <u>389,522</u>	\$ <u>2,224,354</u>

During fiscal year 2009, the Town issued general obligation bonds totaling \$1,300,000 for various general government, public safety, public works (including water and sewer) and school projects.

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, 2009, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Coast Guard houses.....	\$ 1,866,000 *
Forty steps beach.....	100,000 *
Total.....	\$ <u>1,966,000</u>

* A BAN is outstanding for this amount as of June 30, 3009

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2009, the following changes occurred in long-term liabilities:

	Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 5,935,000	\$ 1,153,000	\$ (550,000)	\$ 6,538,000	\$ 640,500
Compensated absences.....	338,000	-	(19,000)	319,000	31,900
Total.....	<u>\$ 6,273,000</u>	<u>\$ 1,153,000</u>	<u>\$ (569,000)</u>	<u>\$ 6,857,000</u>	<u>\$ 672,400</u>
Business-type Activities:					
Bonds and notes payable.....	\$ 1,980,766	\$ 147,000	\$ (292,934)	\$ 1,834,832	\$ 262,434
Compensated absences.....	11,000	4,000	-	15,000	1,500
Total.....	<u>\$ 1,991,766</u>	<u>\$ 151,000</u>	<u>\$ (292,934)</u>	<u>\$ 1,849,832</u>	<u>\$ 263,934</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, 2009, 2008, and 2007 were \$383,675, \$358,682, and \$340,826, 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 2009 totaled approximately \$12,800.

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 \$580,295 for the fiscal year ended June 30, 2009, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 12 – 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, 2009, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2009.

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 13 – 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 2009, the Town received approximately \$100,000 in rental fees related to the Golf Club. Rental requirements in future fiscal years are as follows:

Fiscal Year	Payment
2010.....	116,002
2011.....	118,002
2012.....	59,501

NOTE 14 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

The Town implemented the following GASB pronouncements during fiscal year 2009:

- Statement #49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The implementation of this Statement had no impact on the financial statements.
- Statement #52, *Land and Other Real Estate Held as Investments by Endowments*. The implementation of this Statement had no impact on the financial statements.

NOTE 15 - 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 #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 #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.
- Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented during fiscal year 2011. 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, 2009

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 7,061,826	\$ -	\$ 7,061,826
Motor vehicle and other excise taxes.....	-	478,040	-	478,040
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	2,065	-	2,065
Charges for services.....	-	4,365	-	4,365
Trash disposal.....	-	373,747	-	373,747
Intergovernmental.....	-	1,093,733	(45,825)	1,047,908
Penalties and interest on taxes.....	-	24,100	-	24,100
Licenses and permits.....	-	69,600	-	69,600
Fines and forfeitures.....	-	47,900	-	47,900
Departmental.....	-	445,243	-	445,243
Investment income.....	-	39,600	-	39,600
TOTAL REVENUES.....	-	9,640,219	(45,825)	9,594,394
EXPENDITURES				
Current:				
General government.....	14,173	899,879	(73,999)	840,053
Public safety.....	-	1,979,769	12,065	1,991,834
Education.....	-	3,168,767	(21,429)	3,147,338
Public works.....	2,200	399,514	64,849	466,563
Trash disposal.....	-	373,747	-	373,747
Health and human services.....	-	99,950	(68,650)	31,300
Culture and recreation.....	-	199,943	84,260	284,203
Pension benefits.....	-	403,300	(3,475)	399,825
Employee benefits.....	531	753,400	(29,969)	723,962
Property and liability insurance.....	-	213,430	(42,302)	171,128
State and county charges.....	-	225,655	-	225,655
Debt service:				
Principal.....	-	460,000	-	460,000
Interest.....	-	357,875	-	357,875
TOTAL EXPENDITURES.....	16,904	9,535,229	(78,650)	9,473,483
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(16,904)	104,990	32,825	120,911
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	162,063	-	162,063
Premium from issuance of bonds and notes.....	-	-	-	-
Transfers out.....	-	(561,488)	(32,825)	(594,313)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(399,425)	(32,825)	(432,250)
NET CHANGE IN FUND BALANCE.....	(16,904)	(294,435)	-	(311,339)
FUND BALANCE AT BEGINNING OF YEAR.....	470,210	470,210	470,210	470,210
FUND BALANCE AT END OF YEAR.....	\$ 453,306	\$ 175,775	\$ 470,210	\$ 158,871

See notes to required supplementary information.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 7,116,917	\$ -	\$ 7,116,917	\$ 55,091
426,301	-	426,301	(51,739)
33,103	-	33,103	33,103
-	-	-	(2,065)
2,306	-	2,306	(2,059)
370,248	-	370,248	(3,499)
1,056,854	-	1,056,854	8,946
27,689	-	27,689	3,589
74,752	-	74,752	5,152
47,098	-	47,098	(802)
501,210	-	501,210	55,967
6,409	-	6,409	(33,191)
<u>9,662,887</u>	<u>-</u>	<u>9,662,887</u>	<u>68,493</u>
809,303	12,770	822,073	17,980
1,970,369	2,410	1,972,779	19,055
3,097,060	-	3,097,060	50,278
451,286	-	451,286	15,277
359,238	-	359,238	14,509
26,726	-	26,726	4,574
275,852	5,000	280,852	3,351
396,482	-	396,482	3,343
690,710	-	690,710	33,252
170,767	-	170,767	361
263,216	-	263,216	(37,561)
460,000	-	460,000	-
356,201	-	356,201	1,674
<u>9,327,210</u>	<u>20,180</u>	<u>9,347,390</u>	<u>126,093</u>
<u>335,677</u>	<u>(20,180)</u>	<u>315,497</u>	<u>194,586</u>
162,063	-	162,063	-
7,761	-	7,761	7,761
(594,313)	-	(594,313)	-
<u>(424,489)</u>	<u>-</u>	<u>(424,489)</u>	<u>7,761</u>
(88,812)	(20,180)	(108,992)	202,347
<u>470,210</u>	<u>470,210</u>	<u>470,210</u>	<u>-</u>
<u>\$ 381,398</u>	<u>\$ 450,030</u>	<u>\$ 361,218</u>	<u>\$ 202,347</u>

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)
01/01/08	\$ 301,420,965	\$ 445,171,554	\$ 143,750,589	67.7%	\$ 111,726,856	128.7%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
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
2008	16,995,636	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 (%)	Town ARC as a Percentage of System ARC (%)
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%
2009	383,675	100	2.3%

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, 2009, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balances</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 9,662,887	\$ 9,347,390	\$ 361,218
<u>Adjustments</u>			
To record activity for MTRS on-behalf payments.....	580,295	580,295	-
Net effect in recording short-term interest accrual.....	-	(39,812)	(39,526)
To record encumbrances and continuing appropriations.....	-	(20,180)	20,180
To record prior years' water/sewer net cash activities reclassified to the water/sewer enterprise fund prior to the legal adoption of the enterprise fund.....	-	-	260,529
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 10,243,182</u>	<u>\$ 9,867,693</u>	<u>\$ 602,401</u>

NOTE B - PENSION PLAN

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

Valuation date:	January 1, 2008
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, 2008, schedules as selected by the units for 2002 ERI liability, schedules as selected by units for 2003 ERI liability and 20 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