

**TOWN OF NAHANT, MASSACHUSETTS**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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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, 2011, 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, 2011, 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.

As more fully described in Note 1C, the Town implemented Governmental Accounting Standards Board Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 13) and budgetary comparison and certain pension information (located on pages 55 through 60) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Sullivan, Roy & Company, LLC*

October 3, 2011

## *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, 2011.

### *Financial Highlights*

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$23,935,785 (net assets). Of this amount, \$1,769,542 (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 \$2,718,197.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$902,650, or 8.9 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt decreased by \$638,935 during the fiscal year; the Town issued \$134,000 in new debt in the current fiscal year.

### *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, community preservation (special revenue), and Coast Guard houses (capital projects) funds, each of which are considered to be major funds. Data from the other 16 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 28-53 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 55-60 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 \$23,935,785 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current assets.....	\$ 2,749,616	\$ 2,770,462	\$ 932,996	\$ 617,815	\$ 3,682,612	\$ 3,388,277
Noncurrent assets (excluding capital assets).....	143,178	131,783	-	-	143,178	131,783
Capital assets (net).....	<u>23,372,008</u>	<u>21,236,844</u>	<u>6,849,359</u>	<u>6,975,126</u>	<u>30,221,367</u>	<u>28,211,970</u>
Total assets.....	<u>26,264,802</u>	<u>24,139,089</u>	<u>7,782,355</u>	<u>7,592,941</u>	<u>34,047,157</u>	<u>31,732,030</u>
<b>Liabilities</b>						
Current liabilities (excluding debt).....	603,535	661,147	20,634	27,869	624,169	689,016
Noncurrent liabilities (excluding debt).....	580,628	408,816	49,612	30,712	630,240	439,528
Current debt.....	2,459,500	2,440,500	204,523	248,435	2,664,023	2,688,935
Noncurrent debt.....	<u>4,939,500</u>	<u>5,373,000</u>	<u>1,253,440</u>	<u>1,323,963</u>	<u>6,192,940</u>	<u>6,696,963</u>
Total liabilities.....	<u>8,583,163</u>	<u>8,883,463</u>	<u>1,528,209</u>	<u>1,630,979</u>	<u>10,111,372</u>	<u>10,514,442</u>
<b>Net Assets</b>						
Invested in capital assets (net of related debt).....	16,099,954	13,521,849	5,391,396	5,402,728	21,491,350	18,924,577
Restricted.....	674,893	906,248	-	-	674,893	906,248
Unrestricted.....	<u>906,792</u>	<u>827,529</u>	<u>862,750</u>	<u>559,234</u>	<u>1,769,542</u>	<u>1,386,763</u>
Total net assets.....	<u>\$ 17,681,639</u>	<u>\$ 15,255,626</u>	<u>\$ 6,254,146</u>	<u>\$ 5,961,962</u>	<u>\$ 23,935,785</u>	<u>\$ 21,217,588</u>

The largest portion of the Town's net assets (89.8%) 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 (2.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (7.4% or \$1,769,542) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$906,792 may be used to support governmental activities and \$862,750 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, 2011, the Town's total net assets increased by \$2,718,197, compared to an increase of \$186,366 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for services.....	\$ 1,313,249	\$ 1,278,007	\$ 1,535,393	\$ 1,289,645	\$ 2,848,642	\$ 2,567,652
Operating grants and contributions.....	966,337	944,435	-	-	966,337	944,435
Capital grants and contributions.....	2,465,396	210,523	-	-	2,465,396	210,523
<i>General Revenues:</i>						
Real estate and personal property taxes.....	7,438,764	7,272,430	-	-	7,438,764	7,272,430
Motor vehicle and other excise taxes.....	459,766	443,572	-	-	459,766	443,572
Penalties and interest on taxes.....	57,413	27,095	-	-	57,413	27,095
Payments in lieu of taxes.....	2,079	2,075	-	-	2,079	2,075
Community preservation surcharges.....	171,314	166,933	-	-	171,314	166,933
Grants and contributions not restricted to specific programs.....	1,037,271	1,069,154	-	-	1,037,271	1,069,154
Unrestricted investment income.....	2,494	2,392	-	-	2,494	2,392
<b>Total revenues.....</b>	<b>13,914,083</b>	<b>11,416,616</b>	<b>1,535,393</b>	<b>1,289,645</b>	<b>15,449,476</b>	<b>12,706,261</b>
<b>Expenses</b>						
General government.....	1,492,654	1,294,591	-	-	1,492,654	1,294,591
Public safety.....	2,899,450	2,780,763	-	-	2,899,450	2,780,763
Education.....	4,917,257	5,148,223	-	-	4,917,257	5,148,223
Public works.....	764,225	819,825	-	-	764,225	819,825
Trash disposal.....	321,204	324,989	-	-	321,204	324,989
Health and human services.....	143,487	132,572	-	-	143,487	132,572
Culture and recreation.....	516,740	374,039	-	-	516,740	374,039
Debt service - interest.....	273,915	290,024	-	-	273,915	290,024
Water/Sewer.....	-	-	1,402,347	1,354,869	1,402,347	1,354,869
<b>Total expenses.....</b>	<b>11,328,932</b>	<b>11,165,026</b>	<b>1,402,347</b>	<b>1,354,869</b>	<b>12,731,279</b>	<b>12,519,895</b>
Change in net assets before transfers.....	2,585,151	251,590	133,046	(65,224)	2,718,197	186,366
Transfers, net.....	(159,138)	(180,303)	159,138	180,303	-	-
Change in net assets.....	2,426,013	71,287	292,184	115,079	2,718,197	186,366
Net assets - beginning of year.....	15,255,626	15,184,339	5,961,962	5,846,883	21,217,588	21,031,222
Net assets - end of year.....	\$ 17,681,639	\$ 15,255,626	\$ 6,254,146	\$ 5,961,962	\$ 23,935,785	\$ 21,217,588

Governmental activities increased the Town's net assets by \$2,426,013. In the prior year, governmental activities increased the Town's net assets by \$71,287. The key element of this change relates to the capital contributions (\$2,196,368) to the community center and life saving station.

Business-type activities increased the Town's net assets by \$292,184. In the prior year, business-type activities increased the Town's net assets by \$115,079. The key element of this change is an approximate 9% increase in combined water/sewer user consumption combined with a sewer rate increase of approximately 3%.

### 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.

As of the end of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of (\$142,250), a decrease of \$132,825 in comparison with the prior year. Approximately (\$1,111,300) represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable - \$25,150
- Restricted - \$733,834
- Committed - \$187,522
- Assigned - \$22,511

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$902,650, while total fund balance was \$1,112,683. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 8.9% of total general fund expenditures and transfers out, while total fund balance represents 11.0% of that same amount.

The balance of the Town's general fund increased \$475,640 during the current fiscal year. Although the Town's increase in fund balance on a budgetary basis was greater than the final amended budget amount by approximately \$520,000 (excluding encumbrances and continuing appropriations), approximately \$39,000 of reserves were used to fund the fiscal year 2011 budget.

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

The fund balance of the community preservation fund (special revenue) decreased by \$362,934 during the current fiscal year. The fund recognized \$168,138 in surcharges, \$101,543 in intergovernmental revenues and \$1,280 of investment income. Expenditures of \$633,895 were incurred during the fiscal year.

The fund balance of the Coast Guard houses fund (capital projects) remained the same during the current fiscal year. The fund's deficit totaling \$1,866,000 will be funded through the issuance of long-term debt in future fiscal years.

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 \$862,750. The water/sewer fund had an increase in net assets for the year of \$292,184. 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 \$9,730,457 was increased by \$19,049 (0.2%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase/Decrease</u>	<u>Amount</u>	<u>Funding Source</u>
Snow and ice.....	\$ 34,036	Undesignated fund balance
Insurance committee general expenses.....	<u>(14,987)</u>	Undesignated fund balance
Total net increase.....	<u>\$ 19,049</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 a positive budget to actual variance of approximately \$497,000.

**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 \$30,221,367 (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 7.1% (a 7.6% increase for governmental activities and a 0.5% decrease for business-type activities).

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

- Community center capital contributions (\$1,531,652)
- Coast guard station capital contributions (\$664,716)
- Continued upgrades of road and sidewalk infrastructure (\$176,910)
- Town Wharf construction (\$146,424)
- Purchase of fire radios and breathing apparatus (\$48,256)

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>	
	2011	2010	2011	2010	2011	2010
Land.....	\$ 7,663,885	\$ 7,663,885	\$ -	\$ -	\$ 7,663,885	\$ 7,663,885
Works of art.....	110,500	107,500	-	-	110,500	107,500
Land improvements.....	373,774	328,393	-	-	373,774	328,393
Buildings & improvements.....	12,449,038	10,443,028	-	-	12,449,038	10,443,028
Machinery and equipment.....	969,342	884,880	106,793	117,831	1,076,135	1,002,711
Library books.....	181,180	177,290	-	-	181,180	177,290
Vehicles.....	276,191	326,452	49,154	-	325,345	326,452
Infrastructure.....	1,348,098	1,305,416	6,693,412	6,857,295	8,041,510	8,162,711
Total capital assets.....	\$ 23,372,008	\$ 21,236,844	\$ 6,849,359	\$ 6,975,126	\$ 30,221,367	\$ 28,211,970

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 \$6,830,963, 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>	
	2011	2010	2011	2010	2011	2010
General obligation bonds.....	\$ 5,373,000	\$ 5,807,500	\$ 1,015,850	\$ 1,170,660	\$ 6,388,850	\$ 6,978,160
State house notes.....	-	90,000	-	-	-	90,000
MWRA notes.....	-	-	442,113	401,738	442,113	401,738
Total bonds and notes.....	\$ 5,373,000	\$ 5,897,500	\$ 1,457,963	\$ 1,572,398	\$ 6,830,963	\$ 7,469,898

The Town's total bonded debt decreased by \$638,935 (8.6%) during the current fiscal year; the Town issued \$134,000 in new debt in the current fiscal year.

Additional information on the Town's long-term debt can be found in Note 9 on pages 44-47 of this report.

*Economic Factors and Next Year's Budgets and Rates*

The development of the fiscal year 2012 general fund operating budget was influenced by four major factors: decreased revenue, contractual obligations, increased uncontrollable expenses, and limitations on the property tax levy imposed by Proposition 2 ½.

Budgeted revenue decreases were mainly due to a 7% reduction in state aid (on top of 10% from fiscal year 2011 and 15% from fiscal year 2010) and an 11% reduction in total local receipts.

Approximately 90% of school employees and 75% of municipal employees are covered by collective bargaining agreements. In fiscal year 2012, all non-school employees received 3% increases due to all union and other contracted negotiations.

Health insurance increased 11%, Essex Regional Retirement Board assessment increased 14% and property insurance increased 28%.

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 \$209,457 (2.9%).

Due to limited new debt, limited new capital, and the limited increases of salaries and expenses of all departmental budgets, the Town was able to approve a budget with a limited reduction of staff.

Due to decreased enrollment and Special Education costs, school spending has been limited.

Rubbish rates have been decreased for fiscal year 2012.

*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, 2011

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Current assets:</b>			
Cash and cash equivalents.....	\$ 1,523,214	\$ 467,044	\$ 1,990,258
Restricted cash and cash equivalents.....	813,610	140,765	954,375
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	120,740	-	120,740
Tax and utility liens.....	160,510	927	161,437
Motor vehicle and other excise taxes.....	68,412	-	68,412
Community preservation surcharges.....	2,503	-	2,503
Water.....	-	159,092	159,092
Sewer.....	-	165,168	165,168
Trash.....	10,460	-	10,460
Parking violations.....	10,482	-	10,482
Departmental and other.....	26,078	-	26,078
Intergovernmental.....	13,607	-	13,607
Total current assets.....	<u>2,749,616</u>	<u>932,996</u>	<u>3,682,612</u>
<b>Noncurrent assets:</b>			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	143,178	-	143,178
Capital assets not being depreciated.....	7,774,385	-	7,774,385
Capital assets, net of accumulated depreciation.....	<u>15,597,623</u>	<u>6,849,359</u>	<u>22,446,982</u>
Total noncurrent assets.....	<u>23,515,186</u>	<u>6,849,359</u>	<u>30,364,545</u>
Total assets.....	<u>26,264,802</u>	<u>7,782,355</u>	<u>34,047,157</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Warrants payable.....	296,020	8,465	304,485
Accrued payroll.....	158,299	9,869	168,168
Other liabilities.....	26,203	-	26,203
Accrued interest.....	97,313	-	97,313
Compensated absences.....	25,700	2,300	28,000
Short-term notes payable.....	2,026,000	-	2,026,000
Long-term bonds and notes payable.....	<u>433,500</u>	<u>204,523</u>	<u>638,023</u>
Total current liabilities.....	<u>3,063,035</u>	<u>225,157</u>	<u>3,288,192</u>
<b>Noncurrent liabilities:</b>			
Compensated absences.....	231,300	20,700	252,000
Net OPEB obligation.....	349,328	28,912	378,240
Long-term bonds and notes payable.....	<u>4,939,500</u>	<u>1,253,440</u>	<u>6,192,940</u>
Total noncurrent liabilities.....	<u>5,520,128</u>	<u>1,303,052</u>	<u>6,823,180</u>
Total liabilities.....	<u>8,583,163</u>	<u>1,528,209</u>	<u>10,111,372</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	16,099,954	5,391,396	21,491,350
Restricted for:			
Community preservation.....	360,963	-	360,963
Permanent funds:			
Expendable.....	64,801	-	64,801
Nonexpendable.....	25,150	-	25,150
Other specific purposes.....	223,979	-	223,979
Unrestricted.....	<u>906,792</u>	<u>862,750</u>	<u>1,769,542</u>
Total net assets.....	<u>\$ 17,681,639</u>	<u>\$ 6,254,146</u>	<u>\$ 23,935,785</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
Governmental activities:					
General government.....	\$ 1,492,654	\$ 468,055	\$ 4,440	\$ 664,716	\$ (355,443)
Public safety.....	2,899,450	91,159	114,020	-	(2,694,271)
Education.....	4,917,257	229,398	718,399	-	(3,969,460)
Public works.....	764,225	83,607	93,187	90,998	(496,433)
Trash disposal.....	321,204	414,233	-	-	93,029
Health and human services.....	143,487	5,590	6,062	-	(131,835)
Culture and recreation.....	516,740	21,207	24,805	1,709,682	1,238,954
Debt service - interest.....	273,915	-	5,424	-	(268,491)
Total governmental activities.....	<u>11,328,932</u>	<u>1,313,249</u>	<u>966,337</u>	<u>2,465,396</u>	<u>(6,583,950)</u>
Business-type activities:					
Water/Sewer.....	<u>1,402,347</u>	<u>1,535,393</u>	<u>-</u>	<u>-</u>	<u>133,046</u>
Total primary government.....	<u>\$ 12,731,279</u>	<u>\$ 2,848,642</u>	<u>\$ 966,337</u>	<u>\$ 2,465,396</u>	<u>\$ (6,450,904)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Changes in net assets:</b>			
Net (expense)/revenue (from previous page).....	\$ (6,583,950)	\$ 133,046	\$ (6,450,904)
<i>General revenues:</i>			
Real estate and personal property taxes.....	7,438,764	-	7,438,764
Motor vehicle and other excise taxes.....	459,766	-	459,766
Penalties and interest on taxes.....	57,413	-	57,413
Payments in lieu of taxes.....	2,079	-	2,079
Community preservation surcharges.....	171,314	-	171,314
Grants and contributions not restricted to specific programs.....	1,037,271	-	1,037,271
Unrestricted investment income.....	2,494	-	2,494
<i>Transfers, net</i> .....	(159,138)	159,138	-
Total general revenues and transfers.....	9,009,963	159,138	9,169,101
Change in net assets.....	2,426,013	292,184	2,718,197
Net assets - beginning of year.....	15,255,626	5,961,962	21,217,588
Net assets - end of year.....	\$ 17,681,639	\$ 6,254,146	\$ 23,935,785

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2011

<b>ASSETS</b>	<u>General</u>	<u>Community Preservation</u>	<u>Coast Guard Houses</u>
Cash and cash equivalents.....	\$ 1,523,219	\$ -	\$ -
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	120,740	-	-
Real estate tax deferrals.....	143,178	-	-
Tax and trash liens.....	157,742	2,768	-
Motor vehicle and other excise taxes.....	68,412	-	-
Community preservation surcharges.....	-	2,503	-
Trash.....	10,460	-	-
Parking violations.....	10,482	-	-
Departmental and other.....	26,078	-	-
Intergovernmental.....	-	-	-
Restricted assets:			
Cash and cash equivalents.....	-	355,692	-
<b>TOTAL ASSETS.....</b>	<b><u>\$ 2,060,311</u></b>	<b><u>\$ 360,963</u></b>	<b><u>\$ -</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 259,771	\$ -	\$ -
Accrued payroll.....	152,005	-	-
Other liabilities.....	26,203	-	-
Deferred revenue.....	479,386	5,271	-
Accrued short-term interest.....	30,263	-	-
Short-term notes payable.....	-	-	1,866,000
<b>TOTAL LIABILITIES.....</b>	<b><u>947,628</u></b>	<b><u>5,271</u></b>	<b><u>1,866,000</u></b>
 <b>FUND BALANCES:</b>			
Nonspendable.....	-	-	-
Restricted.....	-	355,692	-
Committed.....	187,522	-	-
Assigned.....	22,511	-	-
Unassigned.....	902,650	-	(1,866,000)
<b>TOTAL FUND BALANCES.....</b>	<b><u>1,112,683</u></b>	<b><u>355,692</u></b>	<b><u>(1,866,000)</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b><u>\$ 2,060,311</u></b>	<b><u>\$ 360,963</u></b>	<b><u>\$ -</u></b>

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,523,219
-	120,740
-	143,178
-	160,510
-	68,412
-	2,503
-	10,460
-	10,482
-	26,078
13,607	13,607
<u>457,918</u>	<u>813,610</u>
<u>\$ 471,525</u>	<u>\$ 2,892,799</u>

\$ 36,249	\$ 296,020
6,294	158,299
-	26,203
13,607	498,264
-	30,263
<u>160,000</u>	<u>2,026,000</u>
<u>216,150</u>	<u>3,035,049</u>
25,150	25,150
378,142	733,834
-	187,522
-	22,511
<u>(147,917)</u>	<u>(1,111,267)</u>
<u>255,375</u>	<u>(142,250)</u>
<u>\$ 471,525</u>	<u>\$ 2,892,799</u>

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	General	Community Preservation	Coast Guard Houses
<b>REVENUES</b>			
Real estate and personal property taxes.....	\$ 7,350,309	\$ -	\$ -
Motor vehicle and other excise taxes.....	459,313	-	-
Tax liens.....	51,947	-	-
Payments in lieu of taxes.....	2,079	-	-
Community preservation surcharges.....	-	168,138	-
Charges for services.....	2,539	-	-
Trash disposal.....	403,831	-	-
Intergovernmental.....	1,473,984	101,543	-
Penalties and interest on taxes.....	57,413	-	-
Licenses and permits.....	60,473	-	-
Fines and forfeitures.....	38,147	-	-
Departmental and other.....	505,183	-	-
Contributions.....	-	-	-
Investment income.....	3,250	1,280	-
<b>TOTAL REVENUES.....</b>	<b>10,408,468</b>	<b>270,961</b>	<b>-</b>
<b>EXPENDITURES</b>			
Current:			
General government.....	862,620	267,561	-
Public safety.....	2,011,716	-	-
Education.....	2,998,630	-	-
Public works.....	379,623	-	-
Trash disposal.....	319,754	-	-
Health and human services.....	42,393	-	-
Culture and recreation.....	250,459	188,514	-
Pension benefits.....	1,122,382	-	-
Employee benefits.....	782,124	-	-
Property and liability insurance.....	179,368	-	-
State and county charges.....	163,192	-	-
Debt service:			
Principal.....	372,000	152,500	-
Interest.....	253,853	25,320	-
<b>TOTAL EXPENDITURES.....</b>	<b>9,738,114</b>	<b>633,895</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>670,354</b>	<b>(362,934)</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in.....	175,734	-	-
Premium from issuance of bonds and notes.....	5,424	-	-
Transfers out.....	(375,872)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(194,714)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>475,640</b>	<b>(362,934)</b>	<b>-</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>637,043</b>	<b>718,626</b>	<b>(1,866,000)</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,112,683</b>	<b>\$ 355,692</b>	<b>\$ (1,866,000)</b>

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 7,350,309
-	459,313
-	51,947
-	2,079
-	168,138
222,450	224,989
-	403,831
542,454	2,117,981
-	57,413
-	60,473
-	38,147
68,544	573,727
56,198	56,198
902	5,432
<u>890,548</u>	<u>11,569,977</u>
9,531	1,139,712
160,361	2,172,077
593,348	3,591,978
291,148	670,771
-	319,754
13,737	56,130
108,954	547,927
-	1,122,382
-	782,124
-	179,368
-	163,192
-	524,500
-	279,173
<u>1,177,079</u>	<u>11,549,088</u>
<u>(286,531)</u>	<u>20,889</u>
41,000	216,734
-	5,424
-	<u>(375,872)</u>
<u>41,000</u>	<u>(153,714)</u>
<u>(245,531)</u>	<u>(132,825)</u>
<u>500,906</u>	<u>(9,425)</u>
<u>\$ 255,375</u>	<u>\$ (142,250)</u>

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

JUNE 30, 2011

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Total governmental fund balances (page 19).....	\$	(142,250)
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		23,372,008
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		498,264
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.....		(67,055)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....		(5,373,000)
Compensated absences.....		(257,000)
Net OPEB obligation.....		<u>(349,328)</u>
Net assets of governmental activities (page 15).....	\$	<u><u>17,681,639</u></u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds (page 21)..... \$ (132,825)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.

Capital outlays and capital contributions.....	2,943,934
Depreciation.....	(772,709)

In the statement of activities, the *loss* on the disposal of capital assets is reported, whereas in the governmental funds only the proceeds of a sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed..... (36,061)

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..... 65,828

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

Bond maturities.....	524,500
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In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable..... 5,258

Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:

Compensated absences.....	(1,000)
Net OPEB obligation.....	(170,912)

Changes in net assets of governmental activities (page 17)..... \$ 2,426,013

See notes to basic financial statements.

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS**

JUNE 30, 2011

		Business-Type Activities- Enterprise Fund
<b>ASSETS</b>		Water/Sewer
<b>Current assets:</b>		
Cash and cash equivalents.....	\$	467,044
Restricted cash and cash equivalents.....		140,765
Receivables, net of allowance for uncollectible amounts:		
Water.....		159,092
Sewer.....		165,168
Utility liens.....		927
Total current assets.....		932,996
<b>Noncurrent assets:</b>		
Capital assets, net of accumulated depreciation.....		6,849,359
Total assets.....		7,782,355
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Warrants payable.....		8,465
Accrued payroll.....		9,869
Compensated absences.....		2,300
Long-term bonds and notes payable.....		204,523
Total current liabilities.....		225,157
<b>Noncurrent liabilities:</b>		
Compensated absences.....		20,700
Net OPEB obligation.....		28,912
Long-term bonds and notes payable.....		1,253,440
Total noncurrent liabilities.....		1,303,052
Total liabilities.....		1,528,209
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt.....		5,391,396
Unrestricted.....		862,750
Total net assets.....	\$	6,254,146

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Business-Type Activities- Enterprise Fund
	Water/Sewer
<b>OPERATING REVENUES</b>	
Charges for services.....	\$ 1,535,393
<b>OPERATING EXPENSES</b>	
Cost of service and administration.....	596,787
MWRA assessment.....	303,713
Lynn assessment.....	213,557
Depreciation.....	232,934
<b>TOTAL OPERATING EXPENSES.....</b>	<b>1,346,991</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>188,402</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest expense.....	(55,356)
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>133,046</b>
<b>TRANSFERS</b>	
Transfers in.....	334,872
Transfers out.....	(175,734)
<b>TOTAL TRANSFERS.....</b>	<b>159,138</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>292,184</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>5,961,962</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 6,254,146</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-Type Activities- Enterprise Fund
	Water/Sewer
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users.....	\$ 1,491,217
Payments to vendors.....	(774,491)
Payments to employees.....	(327,901)
	388,825
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers in.....	334,872
Transfers out.....	(175,734)
	159,138
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from the issuance of bonds and notes.....	134,000
Acquisition and construction of capital assets.....	(107,167)
Principal payments on bonds and notes.....	(248,435)
Interest expense.....	(55,356)
	(276,958)
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>271,005</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b> (Includes \$51,728 reported as restricted).....	<b>336,804</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> (Includes \$140,765 reported as restricted).....	<b>\$ 607,809</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>	
Operating income.....	\$ 188,402
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation.....	232,934
Changes in assets and liabilities:	
Trash and utility liens.....	6,872
User charges.....	(51,048)
Warrants payable.....	(10,345)
Accrued payroll.....	2,710
Compensated absences.....	4,000
Net OPEB obligation.....	15,300
Total adjustments.....	200,423
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 388,825</b>

**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**

JUNE 30, 2011

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<b>ASSETS</b>	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ <u>38,846</u>
 <b>LIABILITIES</b>	
Accrued payroll.....	3,236
Liabilities due depositors.....	<u>35,610</u>
Total liabilities.....	\$ <u>38,846</u>

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General**

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

**B. Reporting Entity**

The Town of 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 2011 Assessment</u>
North Shore Regional Vocational School District.....	To provide vocational education services	30 Log Bridge Road Middleton, MA 01949	\$ 143,566

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. *Implementation of New Accounting Principles*

For the year ending June 30, 2011, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
- GASB Statement No. 59, *Financial Instruments Omnibus*

GASB Statement No. 54 established standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund, capital projects fund, debt service fund, and permanent fund types are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds.

GASB Statement No. 57 and Statement No. 59 had no reporting impact for the Town.

### D. *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.

### E. *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 used to account for and report all financial resources not accounted for and reported in another fund.

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:

*Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

*Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

*Permanent funds* are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

**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.

#### ***F. 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.

## **G. 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 1<sup>st</sup> 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 1<sup>st</sup> and May 1<sup>st</sup> 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 1<sup>st</sup> and May 1<sup>st</sup> 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.

### *H. 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, 2011, 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.

### *I. 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.

### *J. 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.

**K. 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.

**L. 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.

*M. 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.

*N. 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).

*O. Net Assets and Fund Balances*Government-Wide Financial Statements and Proprietary Fund 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.

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

*Nonspendable* — represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

*Restricted* – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – represents amounts that can be used only for specific purposes imposed by a formal action of Town meeting, which is the highest level of decision-making authority for the Town. Committed amounts may be established, modified, or rescinded only through actions approved by Town meeting.

*Assigned* – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the Town's structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

*Unassigned* – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

#### ***P. 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.

#### ***Q. 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 assigned to the general fund.

#### ***R. 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.

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

In addition to providing pension benefits, and as more fully described in Note 10, the Town provides health insurance coverage for current and future retirees and their spouses.

*T. 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.

*U. Total Column*Government-Wide Financial Statements

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

Fund Financial Statements

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY***A. Budgetary Information*

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases to the annual budget subsequent to Annual Town Meeting approval require Special Town Meeting approval.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2011 approved budget for the general fund authorized \$9,730,457 in appropriations. During fiscal year 2011, supplemental appropriations totaling \$19,049 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, 2011, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Coast Guard houses (major fund).....	\$ 1,866,000	Issuance of long-term debt
Road construction.....	88,348	Issuance of long-term debt
Fire radios and breathing apparatus.....	48,256	Issuance of long-term debt

### **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, 2011, \$1,854,311 of the Town's bank balance of \$2,921,555 was uninsured and uncollateralized and therefore exposed to custodial credit risk.

#### Investments Summary

The Town's investment at June 30, 2011 consisted of \$134,037 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, 2011, 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, 2011, 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, 2011, the Town's investment in MMDT did not have a credit quality rating.

**NOTE 4 - ACCOUNTS RECEIVABLE**

At June 30, 2011, 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....	\$ 120,740	\$ -	\$ 120,740
Real estate tax deferrals.....	143,178	-	143,178
Tax and trash liens.....	160,510	-	160,510
Motor vehicle and other excise taxes.....	68,412	-	68,412
Community preservation surcharges.....	2,503	-	2,503
Trash.....	10,460	-	10,460
Parking violations.....	118,262	(107,780)	10,482
Departmental and other.....	26,078	-	26,078
Intergovernmental.....	13,607	-	13,607
	<u>\$ 663,750</u>	<u>\$ (107,780)</u>	<u>\$ 555,970</u>

At June 30, 2011, 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.....	\$ 159,092	\$ -	\$ 159,092
Sewer.....	165,168	-	165,168
Utility liens.....	927	-	927
	<u>\$ 325,187</u>	<u>\$ -</u>	<u>\$ 325,187</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:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 63,034	\$ -	\$ 63,034
Real estate tax deferrals.....	143,178	-	143,178
Tax and trash liens.....	157,742	2,768 (a)	160,510
Motor vehicle and other excise taxes.....	68,412	-	68,412
Community preservation surcharges.....	-	2,503 (a)	2,503
Trash.....	10,460	-	10,460
Parking violations.....	10,482	-	10,482
Departmental and other.....	26,078	-	26,078
Intergovernmental (other state and federal).....	-	13,607 (b)	13,607
	<u>479,386</u>	<u>18,878</u>	<u>498,264</u>
Total.....	\$ 479,386	\$ 18,878	\$ 498,264

(a) Community Preservation Fund (Major Fund)

(b) Nonmajor Governmental Funds

## NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 7,663,885	\$ -	\$ -	\$ 7,663,885
Works of art.....	107,500	3,000	-	110,500
Total capital assets not being depreciated.....	<u>7,771,385</u>	<u>3,000</u>	<u>-</u>	<u>7,774,385</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	617,616	70,527	-	688,143
Buildings and improvements.....	14,359,649	2,393,777	-	16,753,426
Machinery and equipment.....	2,150,639	219,221	(102,000)	2,267,860
Library books.....	492,215	38,414	-	530,629
Vehicles.....	1,005,857	42,085	(71,746)	976,196
Infrastructure.....	2,677,767	176,910	-	2,854,677
Total capital assets being depreciated.....	<u>21,303,743</u>	<u>2,940,934</u>	<u>(173,746)</u>	<u>24,070,931</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(289,223)	(25,146)	-	(314,369)
Buildings and improvements.....	(3,916,621)	(387,767)	-	(4,304,388)
Machinery and equipment.....	(1,265,759)	(134,359)	101,600	(1,298,518)
Library books.....	(314,925)	(34,524)	-	(349,449)
Vehicles.....	(679,405)	(56,685)	36,085	(700,005)
Infrastructure.....	(1,372,351)	(134,228)	-	(1,506,579)
Total accumulated depreciation.....	<u>(7,838,284)</u>	<u>(772,709)</u>	<u>137,685</u>	<u>(8,473,308)</u>
Total capital assets being depreciated, net.....	<u>13,465,459</u>	<u>2,168,225</u>	<u>(36,061)</u>	<u>15,597,623</u>
Total governmental activities capital assets, net.....	<u>\$ 21,236,844</u>	<u>\$ 2,171,225</u>	<u>\$ (36,061)</u>	<u>\$ 23,372,008</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ 130,226	\$ -	\$ -	\$ 130,226
Vehicles.....	-	54,616	-	54,616
Infrastructure.....	10,338,798	52,551	-	10,391,349
Total capital assets being depreciated.....	10,469,024	107,167	-	10,576,191
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(12,395)	(11,038)	-	(23,433)
Vehicles.....	-	(5,462)	-	(5,462)
Infrastructure.....	(3,481,503)	(216,434)	-	(3,697,937)
Total accumulated depreciation.....	(3,493,898)	(232,934)	-	(3,726,832)
Total business-type activities capital assets, net.....	\$ 6,975,126	\$ (125,767)	\$ -	\$ 6,849,359

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

**Governmental Activities:**

General government.....	\$ 85,492
Public safety.....	114,618
Education.....	245,062
Public works.....	175,556
Culture and recreation.....	151,981

Total depreciation expense - governmental activities..... \$ 772,709

**Business-Type Activities:**

Water/Sewer.....	\$ <u>232,934</u>
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**NOTE 6 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2011, are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Nonmajor Governmental Funds	Water/Sewer Enterprise Fund	Total
General Fund.....	\$ -	\$ 41,000	\$ 334,872	\$ 375,872 (1)
Water/Sewer Enterprise Fund.....	175,734	-	-	175,734 (2)
	<u>\$ 175,734</u>	<u>\$ 41,000</u>	<u>\$ 334,872</u>	<u>\$ 551,606</u>

(1) Represents budgeted transfers to employee benefits special revenue fund (\$15,000), wharf special revenue fund (\$26,000) and the water/sewer enterprise fund to pay debt service (\$334,872)

(2) Represents transfer of indirect costs to the general fund (\$175,734)

**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, 2011, is as follows:

**Notes Payable - Governmental Funds**

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2010	Increases	Decreases	Balance at 6/30/2011
BAN	Forty steps beach.....	07/10/09	07/08/10	1.80%	\$ 50,000	\$ -	\$ (50,000)	\$ -
BAN	Coast Guard houses.....	10/13/09	10/13/10	1.75%	1,866,000	-	(1,866,000)	-
RAN	Revenue anticipation note.....	07/09/10	05/13/11	1.50%	-	1,000,000	(1,000,000)	-
BAN	Street and sidewalk paving.....	07/09/10	07/08/11	1.50%	-	100,000	-	100,000
BAN	Fire department equipment.....	07/09/10	07/08/11	1.50%	-	60,000	-	60,000
BAN	Coast Guard houses.....	10/13/10	10/13/11	1.00%	-	1,866,000	-	1,866,000
	Total.....				<u>\$ 1,916,000</u>	<u>\$ 3,026,000</u>	<u>\$ (2,916,000)</u>	<u>\$ 2,026,000</u>

Subsequent Events

On July 8, 2011, the Town paid down \$12,000 of the street and sidewalk paving BAN and renewed the BAN in the amount of \$88,000 at an interest rate of 1.5% with a maturity date of July 6, 2012.

On July 8, 2011, the Town paid down \$10,000 of the fire department equipment BAN and renewed the BAN in the amount of \$50,000 at an interest rate of 1.5% with a maturity date of July 6, 2012.

On July 8, 2011, the Town issued a RAN in the amount of \$1,300,000 at an interest rate of 1.25% and maturity date of May 15, 2012.

On July 8, 2011, the Town issued a BAN in the amount of \$250,000 for Bear Pond drainage at an interest rate of 1.5% with a maturity date of July 6, 2012.

On July 8, 2011, the Town issued a BAN in the amount of \$100,000 for road and sidewalk paving at an interest rate of 1.5% with a maturity date of July 6, 2012.

**NOTE 8 - LONG-TERM OBLIGATIONS**

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable.....	\$ 5,897,500	\$ -	\$ (524,500)	\$ 5,373,000	\$ 433,500
Net OPEB obligation.....	178,416	358,502	(187,590)	349,328	-
Compensated absences.....	256,000	1,000	-	257,000	25,700
Total.....	<u>\$ 6,331,916</u>	<u>\$ 359,502</u>	<u>\$ (712,090)</u>	<u>\$ 5,979,328</u>	<u>\$ 459,200</u>
<b>Business-type Activities:</b>					
Bonds and notes payable.....	\$ 1,572,398	\$ 134,000	\$ (248,435)	\$ 1,457,963	\$ 204,523
Net OPEB obligation.....	13,612	29,671	(14,371)	28,912	-
Compensated absences.....	19,000	4,000	-	23,000	2,300
Total.....	<u>\$ 1,605,010</u>	<u>\$ 167,671</u>	<u>\$ (262,806)</u>	<u>\$ 1,509,875</u>	<u>\$ 206,823</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 and general fund subsidies.

**NOTE 9 - 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, 2011, and the debt service requirements are as follows:

**Bonds and Notes Payable - Governmental Funds**

Project	Interest Rate	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
School remodeling.....	3.75% - 5.00%	\$ 4,790,000	\$ -	\$ (300,000)	\$ 4,490,000
Coast Guard station.....	4.70%	90,000	-	(90,000)	-
DPW dump truck.....	3.375% - 3.50%	18,000	-	(9,000)	9,000
Fire department truck.....	3.375% - 3.50%	21,000	-	(11,000)	10,000
Johnson school roof.....	3.375% - 4.25%	153,500	-	(14,500)	139,000
Building reconstruction.....	3.375% - 4.25%	562,500	-	(62,500)	500,000
School road/traffic.....	3.375% - 4.25%	112,500	-	(12,500)	100,000
Remodeling.....	3.375% - 4.25%	90,000	-	(10,000)	80,000
Departmental equipment.....	3.375% - 3.50%	60,000	-	(15,000)	45,000
Total governmental funds.....		\$ 5,897,500	\$ -	\$ (524,500)	\$ 5,373,000

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

Fiscal Year	Principal	Interest	Total
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.....	\$ 5,373,000	\$ 1,510,287	\$ 6,883,287

*Bonds and Notes Payable - Enterprise Fund*

Project	Interest Rate	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Sewer project.....	5.00%	\$ 422,500	\$ -	\$ (32,500)	\$ 390,000
Sewer project.....	5.00%	105,100	-	(7,400)	97,700
Sewer project.....	5.00%	150,560	-	(9,410)	141,150
Water and sewer projects....	6.70%-7.00%	45,000	-	(45,000)	-
Water note (MWRA).....	0.00%	13,313	-	(13,313)	-
Water note (MWRA).....	0.00%	26,625	-	(13,312)	13,313
Water note (MWRA).....	0.00%	40,200	-	(13,400)	26,800
Water note (MWRA).....	0.00%	53,600	-	(13,400)	40,200
Water note (MWRA).....	0.00%	160,800	-	(26,800)	134,000
Water note (MWRA).....	0.00%	107,200	-	(13,400)	93,800
Sewer project.....	3.75% - 5.00%	105,000	-	(15,000)	90,000
Sewer project.....	3.75% - 5.00%	210,000	-	(30,000)	180,000
Water projects.....	3.375% - 4.25%	65,000	-	(8,000)	57,000
Sewer project.....	3.375% - 4.25%	67,500	-	(7,500)	60,000
Water note (MWRA).....	0.00%	-	134,000	-	134,000
Total enterprise fund.....		\$ 1,572,398	\$ 134,000	\$ (248,435)	\$ 1,457,963

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. The financial assistance is in the form of interest free loans that are payable in ten equal annual installments. During fiscal year 2011, the Town received a non-interest bearing MWRA loan in the amount of \$134,000. At June 30, 2011, the outstanding principal amount of MWRA loans totaled \$442,113.

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>
2012.....	\$ 204,523	\$ 46,406	\$ 250,929
2013.....	190,210	41,649	231,859
2014.....	176,810	36,952	213,762
2015.....	163,410	31,956	195,366
2016.....	163,410	26,753	190,163
2017.....	136,610	21,530	158,140
2018.....	91,610	17,298	108,908
2019.....	70,210	14,344	84,554
2020.....	62,710	11,720	74,430
2021.....	62,710	9,255	71,965
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
<b>Total.....</b>	<b>\$ 1,457,963</b>	<b>\$ 272,320</b>	<b>\$ 1,730,283</b>

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, 2011, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Coast guard houses.....	\$ 1,866,000 *
Water meters.....	750,000
Bear pond dredging .....	250,000
Fire truck.....	140,000
Paving.....	100,000
Street and sidewalk paving.....	100,000 *
Fire department equipment.....	60,000 *
<b>Total.....</b>	<b>\$ 3,266,000</b>

\* A BAN is outstanding for this amount as of June 30, 2011

**NOTE 10 - OTHER POST EMPLOYMENT BENEFITS**

**Plan Description** – The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the “Plan”) as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2009, the latest actuarial valuation, is as follows:

Active employees.....	50
Retired employees, beneficiaries and dependents.....	<u>43</u>
Total.....	<u><u>93</u></u>

**Funding Policy** - The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates of Plan members and the Town (including Medicare Part B) are 35-50% and 50-65%, respectively. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

**Annual OPEB Cost and Net OPEB Obligation** - The Town’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement #45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation to the plan:

	<u>Amount</u>
Annual required contribution.....	\$ 390,130
Interest on net OPEB obligation.....	5,761
Adjustment to annual required contribution.....	<u>(7,718)</u>
Annual OPEB cost.....	388,173
Contributions made.....	<u>(201,961)</u>
Increase in net OPEB obligation.....	186,212
Net OPEB obligation at beginning of year.....	<u>192,028</u>
Net OPEB obligation at end of year.....	<u><u>\$ 378,240</u></u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2010*.....	\$ 374,868	48.8%	\$ 192,028
June 30, 2011.....	388,173	52.0%	378,240

\* Transition year

**Funded Status and Funding Progress** - The funded status of the Plan at July 1, 2009, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/09	\$ -	\$ 4,586,481	\$ 4,586,481	-	\$ 2,427,894	189%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

The assumptions made (including simplifying assumptions under the alternative measurement method) are as follows:

Cost method:	Entry Age Normal
Amortization method:	Level percentage of projected payroll
Remaining amortization period:	30 years
Interest discount rate:	3.0%
Healthcare/Medical cost trend rate:	Year 1 through Year 6 - 6.0% per year Year 7 and Subsequent - 5.0% per year

Health insurance premiums:	Health insurance premiums for retirees at the calculation date was used as the basis for calculation of the present value of total benefits to be paid
Projected salary increases:	2.0% annually
Retirement age:	The greater of age 65 or the first year of eligibility
Marital status:	Status of plan members at the calculation date
Mortality:	Based on the Expectation of Life by Age and Sex in the United States from the National Center for Health Statistics (2008)
Turnover:	Data from GASB Statement #45 was used to assign active members a probability of remaining employed until the assumed retirement age and to develop an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid

*Allocation of AOPEBC* - AOPEBC costs were allocated to the Town's functions as follows:

**Governmental Activities:**

General government.....	\$ 47,261
Public safety.....	146,970
Education.....	130,875
Public works.....	15,419
Trash disposals.....	2,924
Health and human services.....	2,249
Culture and recreation.....	<u>12,803</u>

Total AOPEBC - governmental activities.....	<u>358,502</u>
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**Business-Type Activities:**

Water/Sewer.....	<u>29,671</u>
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Total AOPEBC.....	<u>\$ 388,173</u>
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**NOTE 11 - FUND BALANCES**

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	General	Community Preservation	Coast Guard Houses	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>					
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ 25,150	\$ 25,150
<b>Restricted:</b>					
General government.....	-	-	-	15,311	15,311
Public works.....	-	-	-	5,894	5,894
Culture and recreation.....	-	-	-	40,964	40,964
Community preservation.....	-	355,692	-	1,835	357,527
Other.....	-	-	-	132,445	132,445
Insurance proceeds.....	-	-	-	1,280	1,280
Revolving funds.....	-	-	-	31,919	31,919
Town state grants.....	-	-	-	1,108	1,108
Town federal grants.....	-	-	-	55,736	55,736
Capital.....	-	-	-	91,650	91,650
Sub-total - Restricted.....	-	355,692	-	378,142	733,834
<b>Committed:</b>					
Subsequent year's expenditures.....	187,522	-	-	-	187,522
<b>Assigned:</b>					
Encumbrances.....	22,511	-	-	-	22,511
Unassigned.....	902,650	-	(1,866,000)	(147,917)	(1,111,267)
Total fund balances.....	\$ 1,112,683	\$ 355,692	\$ (1,866,000)	\$ 255,375	\$ (142,250)

**NOTE 12- STABILIZATION FUNDS**

The Town maintains a general stabilization fund that was established under MGL Chapter 40, Section 5B. Appropriations in and out of the stabilization fund require two-thirds vote of Town meeting. Investment income is retained by the fund.

The balance of the stabilization fund at June 30, 2011 totals \$79,886 and is reported in the general fund as unassigned fund balance.

**NOTE 13 - PRIOR PERIOD RECLASSIFICATIONS**

The beginning fund balance of the general fund has been restated from \$557,912 to \$637,043 and the beginning fund balance of the stabilization major fund has been restated from \$79,131 to \$0 to reflect the reclassification of the stabilization major fund to the general fund.

**NOTE 14 - OPERATING LEASES**

The Town (Lessor) has entered into an operating lease agreement (Agreement) with Kelley Greens at Nahant (Lessee) to manage the Kelley Greens Golf Club (Golf Club). The Agreement provides for a flat rate lease fee for each year of the contract, commencing January 1st of each year. The Lessee may choose to reduce the lease fee, up to an amount equal to two (2) months rent per year by completing capital improvements as approved by the Town. The contract expires on December 31, 2016.

During fiscal year 2011, the Town received approximately \$100,000 in rental fees related to the Golf Club. Rental requirements in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2012.....	\$ 100,168
2013.....	101,668
2014.....	103,335
2015.....	105,002
2016.....	106,668
2017.....	53,751

**NOTE 15 - 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 16 - 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, 2011, 2010, and 2009 were \$446,854, \$423,691, and \$383,675, respectively, which equaled its required contribution for each fiscal year.

**NOTE 17 - 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 \$642,857 for the fiscal year ended June 30, 2011, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

**NOTE 18 - 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, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2011.

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 19 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented during fiscal year 2013. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, which is required to be implemented during fiscal year 2013. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented during fiscal year 2013. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented during fiscal year 2012. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, which is required to be implemented during fiscal year 2012. The implementation of this Statement will not impact the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

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*Required Supplementary Information*

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Real estate and personal property taxes.....	\$ -	\$ 7,334,031	\$ -	\$ 7,334,031
Motor vehicle and other excise taxes.....	-	432,915	-	432,915
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	2,075	-	2,075
Charges for services.....	-	4,915	-	4,915
Trash disposal.....	-	370,098	-	370,098
Intergovernmental.....	-	832,523	-	832,523
Penalties and interest on taxes.....	-	27,095	-	27,095
Licenses and permits.....	-	70,925	-	70,925
Fines and forfeitures.....	-	45,950	-	45,950
Departmental and other.....	-	417,910	-	417,910
Investment income.....	-	2,391	-	2,391
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>9,540,828</b>	<b>-</b>	<b>9,540,828</b>
<b>EXPENDITURES</b>				
Current:				
General government.....	6,300	938,303	(40,043)	904,560
Public safety.....	-	2,006,447	20,898	2,027,345
Education.....	-	2,959,485	39,145	2,998,630
Public works.....	-	395,609	59,742	455,351
Trash disposal.....	-	370,098	(25,706)	344,392
Health and human services.....	-	43,300	-	43,300
Culture and recreation.....	-	259,215	-	259,215
Pension benefits.....	-	479,525	-	479,525
Employee benefits.....	-	854,175	(1,710)	852,465
Property and liability insurance.....	-	216,545	(33,277)	183,268
State and county charges.....	-	180,490	-	180,490
Debt service:				
Principal.....	-	379,000	-	379,000
Interest.....	-	272,393	-	272,393
<b>TOTAL EXPENDITURES.....</b>	<b>6,300</b>	<b>9,354,585</b>	<b>19,049</b>	<b>9,379,934</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(6,300)</b>	<b>186,243</b>	<b>(19,049)</b>	<b>160,894</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in.....	-	175,734	-	175,734
Premium from issuance of bonds and notes.....	-	-	-	-
Transfers out.....	-	(375,872)	-	(375,872)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(200,138)</b>	<b>-</b>	<b>(200,138)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(6,300)</b>	<b>(13,895)</b>	<b>(19,049)</b>	<b>(39,244)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR.....</b>	<b>264,077</b>	<b>264,077</b>	<b>264,077</b>	<b>264,077</b>
<b>FUND BALANCE AT END OF YEAR.....</b>	<b>\$ 257,777</b>	<b>\$ 250,182</b>	<b>\$ 245,028</b>	<b>\$ 224,833</b>

See notes to required supplementary information.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 7,350,046	\$ -	\$ 7,350,046	\$ 16,015
459,313	-	459,313	26,398
51,947	-	51,947	51,947
2,079	-	2,079	4
2,539	-	2,539	(2,376)
403,831	-	403,831	33,733
831,127	-	831,127	(1,396)
57,413	-	57,413	30,318
60,473	-	60,473	(10,452)
38,147	-	38,147	(7,803)
505,183	-	505,183	87,273
2,494	-	2,494	103
<u>9,764,592</u>	<u>-</u>	<u>9,764,592</u>	<u>223,764</u>
862,620	2,000	864,620	39,940
2,011,716	-	2,011,716	15,629
2,998,630	-	2,998,630	-
379,623	333	379,956	75,395
319,754	-	319,754	24,638
42,393	-	42,393	907
250,459	-	250,459	8,756
479,525	-	479,525	-
782,124	20,178	802,302	50,163
179,368	-	179,368	3,900
163,192	-	163,192	17,298
372,000	-	372,000	7,000
247,726	-	247,726	24,667
<u>9,089,130</u>	<u>22,511</u>	<u>9,111,641</u>	<u>268,293</u>
<u>675,462</u>	<u>(22,511)</u>	<u>652,951</u>	<u>492,057</u>
175,734	-	175,734	-
5,424	-	5,424	5,424
<u>(375,872)</u>	<u>-</u>	<u>(375,872)</u>	<u>-</u>
<u>(194,714)</u>	<u>-</u>	<u>(194,714)</u>	<u>5,424</u>
480,748	(22,511)	458,237	497,481
<u>264,077</u>	<u>264,077</u>	<u>264,077</u>	<u>-</u>
<u>\$ 744,825</u>	<u>\$ 241,566</u>	<u>\$ 722,314</u>	<u>\$ 497,481</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)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Liability (AAL) Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll (B-A)/C)</u>
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)**

<u>Year Ended December 31</u>	<u>Annually Required Contributions (ARC)</u>	<u>Percentage of ARC Contributed (%)</u>
2005	\$ 14,609,198	100
2006	15,274,181	100
2007	16,294,571	100
2008	16,995,636	100
2009	18,173,867	100
2010	19,566,952	100

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

**TOWN SHARE OF SYSTEM ARC**

<u>Fiscal Year Ended June 30</u>	<u>ARC</u>	<u>Percentage of ARC Contributed (%)</u>	<u>Town ARC as a Percentage of System ARC (%)</u>
2006	\$ 302,506	100	2.1%
2007	340,826	100	2.2%
2008	358,682	100	2.2%
2009	383,675	100	2.3%
2010	423,691	100	2.3%
2011	446,854	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, 2011, 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.....	\$ 9,764,592	\$ 9,111,641	\$ 722,314
<u>Reclassifications</u>			
Activity of stabilization fund recorded in the general fund for GAAP purposes.....	755	-	79,886
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	264	-	57,706
To record MTRS on-behalf payments.....	642,857	642,857	-
Net change in recording short-term interest accrual.....	-	6,127	(30,263)
To record encumbrances and continuing appropriations.....	-	(22,511)	22,511
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
	<u>          </u>	<u>          </u>	<u>          </u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ <u>10,408,468</u>	\$ <u>9,738,114</u>	\$ <u>1,112,683</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