

TOWN OF NAHANT, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012



Certified Public Accountants

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To the Honorable Board of Selectmen
Town of Nahant, Massachusetts

In planning and performing our audit of the financial statements of the Town of Nahant, Massachusetts (Town) as of and for the year ended June 30, 2012, 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, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated September 21, 2012, on the financial statements of the Town.

The Town's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Selectmen and others within the organization and should not be used by anyone other than these specified parties.

Sullivan, Rogers & Company, LLC

September 21, 2012

TOWN OF NAHANT, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012

TABLE OF CONTENTS

	Page
Comments and Recommendations.....	1
Service Organization Controls.....	1
Risk Assessment and Monitoring.....	2
Financial Policies and Procedures Manual.....	4
Develop and Document a Disaster Recovery Plan	5
Pension Accounting and Financial Reporting	7

Comments and Recommendations

Service Organization Controls

Comment

The Town, like many local governments in Massachusetts, engages third-party service providers (service organizations) to process certain financial transactions (such as payroll and ambulance and parking violation accounts receivable). In such instances, the related financial transactions are affected by the Town's internal controls and the controls employed by the service organization. Therefore, as part of its monitoring efforts to ensure that internal controls over financial reporting are effective and functioning as intended, Town management must evaluate whether service organization controls are suitably designed and effective.

Furthermore, service organizations often have information regarding employees and customers that must be protected (e.g., social security numbers). Such controls generally relate to the security, availability, processing integrity, confidentiality or privacy of information. Therefore, as part of its monitoring efforts to ensure the privacy and protection of its employees and customers' information, management must evaluate whether service organization controls are suitably designed and effective.

The most effective and efficient way for the Town to accomplish its monitoring efforts is to obtain the appropriate *Service Organization Control (SOC)* reports from its third-party service providers.

There are two types of SOC reports that service auditors provide to service organizations for the benefit of their users, which are as follows:

- SOC 1 (previously SAS 70) reports – provide an opinion on controls at a service organization that are likely to be relevant to a user entity's internal control over financial reporting
- SOC 2 reports – provide an opinion on controls at a service organization that are related to the American Institute of Certified Public Accountants (AICPA) Trust Service Principles, which are (1) security; (2) availability; (3) processing integrity; (4) confidentiality; and (5) privacy.

Service organizations should be engaging a service auditor to provide the appropriate SOC report(s) and should make the resulting report available to their customers (e.g., the Town).

Recommendation

We recommend the Town identify each service organization utilized and request the applicable SOC report (annually).

Because all service organizations are an extension of the Town's internal control, we recommend all service organization contracts include a requirement to obtain the appropriate SOC report (annually).

Management's Response

The Treasurer/Collector has contacted Harpers (Payroll provider) and Kelley and Ryan (Excise and Parking Ticket Provider) in regards to the SOC 1 and SOC 2 reports. Harpers has already complied and Kelley and Ryan will let us know if more of their clients request it so that it can be cost effective for them to comply and then they will do so. The Town will continue to analyze our service providers and request these reports as needed.

Risk Assessment and Monitoring

Comment

As reported in prior years, when internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the Town's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, and its processes. The risk assessment process should consider the Town's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

We identified the Town has implemented an Employee Handbook. The Employee Handbook is an aspect of risk assessment and monitoring, but more extensive measures must be taken in order to fully establish a comprehensive risk assessment and monitoring program.

Recommendation

We recommend that management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the Town's financial policies and procedures manual.

We recommend that management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

Most of the recommendations have been implemented and the Town will complete risk assessment.

Financial Policies and Procedures Manual

Comment

As reported in prior years, the Town's financial policies and procedures are well designed and functioning properly. However, we believe that preparation of a centralized formal (written) policy and procedures manual would improve and standardize the Town's financial policies and procedures. Inherent in any organization that operates without formalized written procedures are inconsistencies in everyday policies and procedures. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

Such a manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

- Cash receipts
- Cash disbursements
 - Payroll
 - Vendor
- Billing procedures
- Cash and accounts receivable reconciliations
- Debt issuance procedures
- Recordkeeping requirements
- State and federal financial reporting requirements
- Administration of student activity funds
- Month-end and year-end closing procedures

The manual should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities in the event of employee turnover.

Recommendation

The Town has prepared a few sections of the manual (accounts receivable reconciliations and debt issuance procedures). We recommend management continue its progress towards designing and implementing a formal financial policies and procedures manual.

Management's Response

As indicated in the recommendation, the Town has prepared some sections of the financial policies and procedures manual and will continue working on it as well as updating for changes in financial software.

Develop and Document a Disaster Recovery Plan

Comment

As reported in prior years, the Town has property insurance; however, it does not have a plan of action in case its offices should be destroyed by a fire, natural disaster such as a flood or tornado, or a bombing or other terrorist act. Such a disaster could strike at any time, perhaps without warning. In that case, the Town would have to act quickly to take steps critical to assessing and recovering from loss of, or damage to, its premises; furniture and equipment; and electronic data.

A well-thought out and documented disaster recovery plan would help Town personnel act quickly and appropriately at a time when the stress and disruption of a disaster might adversely affect their memory, emotions, and judgment. It would also help others take charge in place of managers who might be lost, injured, or otherwise unavailable at the time of the crisis.

As part of developing a disaster recovery plan, arrangements should be made for protection of files and for use of backup space, equipment and furniture, or services should a disaster occur. In addition, while developing the plan, management personnel could take the opportunity to reassess the adequacy of its property insurance and to learn about some of the financial assistance that might be available to the Town after a disaster so that such assistance could be requested as quickly as possible.

Recommendation

The Town has made improvements in this area, such as document back-ups and off-site storage of software. To continue its progress, we recommend management develop and implement a complete and formal disaster recovery plan. The disaster recovery plan should be documented and at least one copy stored in a secure, off-site location. We suggest that the documentation include the following:

- A list of key contacts, including all employees and their emergency contacts, insurance companies, key suppliers and customers, and important professional services such as restoration specialists
- A current schematic showing how the computer system is designed and connected
- A current, complete set of documentation for all of the operating systems and application software (including version numbers)
- A copy of the schedule for the off-site storage of backup data and programs
- A list of safety and community services that might be needed
- A list of pre-arranged temporary alternative work sites
- A list of probable equipment and supplies that would be needed for recovery operations and related vendors

The disaster recovery plan should be reviewed, updated, and tested at least annually. This will allow the disaster team members to assess the plan's continued appropriateness and feasibility in light of current conditions and to become familiar with implementing each step of the plan so that they could act more quickly and decisively at the time of the disaster.

Management's Response

The Town Administrator agrees with the bullet points in the audit and has been working with the public safety personnel and will strive to complete over the next year.

The Town is utilizing a reverse 911 system. It is currently up and running. Some of the computer system is already showing the design and connections on a diagram set up by the IT department. The Town has off-site storage for all the Town Hall's and Police Department's data.

Pension Accounting and Financial Reporting

Comment

In June of 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Town will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide financial statements. The implementation of this Statement will also:

- More comprehensively measure the annual costs of pension benefits
- Place conditions on the use of the discount rate used to measure the projected benefit payments to their actuarial present value
- Require the use of the “entry age” actuarial cost allocation method, with each period’s service cost determined by a level percentage of pay (referred to as attribution method)
- Expand pension related note disclosures
- Expand pension related required supplementary information disclosures

The requirements of this Statement will improve the decision-usefulness of pension information in governmental financial statements and will enhance the comparability of pension information between governmental entities.

Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the Town’s financial statements.

It should be noted that the implementation of GASB Statement No. 68 is strictly a financial reporting standard and does not constitute a state or federal mandate regarding the funding of the net pension obligation.

The Town’s required implementation date of GASB Statement No. 68 is fiscal year 2015.

Recommendation

We recommend management familiarize itself with GASB Statement No. 68 to prepare for its implementation.

Management’s Response

The Town will familiarize itself and prepare for the implementation of the new GASB No. 68 for 2015.

TOWN OF NAHANT, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TOWN OF NAHANT, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements	14
Statement of net assets	15
Statement of activities.....	16
Governmental funds - balance sheet	18
Governmental funds - statement of revenues, expenditures and changes in fund balances.....	20
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.....	22
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	23
Proprietary fund - statement of fund net assets	24
Proprietary fund - statement of revenues, expenses and change in fund net assets.....	25
Proprietary fund - statement of cash flows.....	26
Fiduciary fund - statement of fiduciary net assets.....	27
Notes to basic financial statements	28
Required Supplementary Information.....	53
General fund - schedule of revenues, expenditures and changes in fund balance - budget and actual	54
Community preservation fund - schedule of revenues, expenditures and changes in fund balance - budget and actual.....	56
Pension plan schedules	58
Schedules of funding progress (system).....	58
Schedule of employer contributions (system).....	58
Town share of system ARC	58
Notes to required supplementary information.....	59

Independent Auditors' Report



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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, 2012, 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2012 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), general fund and community preservation fund budgetary comparisons and certain pension information (located on pages 53 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, Day & Company, LLC

September 21, 2012

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, 2012.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$24,476,533 (net assets). Of this amount, \$1,851,257 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased \$540,748.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$680,062, or 6.4 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt increased by \$111,977 during the fiscal year; the Town issued \$750,000 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 28-52 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 community preservation fund and certain pension information, which can be found on pages 53-60 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 \$24,476,533 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets.....	\$ 3,204,256	\$ 2,749,616	\$ 1,696,265	\$ 932,996	\$ 4,900,521	\$ 3,682,612
Noncurrent assets (excluding capital assets).....	124,884	143,178	-	-	124,884	143,178
Capital assets (net).....	23,092,988	23,372,008	7,129,812	6,849,359	30,222,800	30,221,367
Total assets.....	<u>26,422,128</u>	<u>26,264,802</u>	<u>8,826,077</u>	<u>7,782,355</u>	<u>35,248,205</u>	<u>34,047,157</u>
Liabilities						
Current liabilities (excluding debt).....	618,101	603,535	47,247	20,634	665,348	624,169
Noncurrent liabilities (excluding debt).....	742,024	580,628	67,360	49,612	809,384	630,240
Current debt.....	2,768,500	2,459,500	265,210	204,523	3,033,710	2,664,023
Noncurrent debt.....	4,525,000	4,939,500	1,738,230	1,253,440	6,263,230	6,192,940
Total liabilities.....	<u>8,653,625</u>	<u>8,583,163</u>	<u>2,118,047</u>	<u>1,528,209</u>	<u>10,771,672</u>	<u>10,111,372</u>
Net Assets						
Invested in capital assets (net of related debt).....	16,116,894	16,099,954	5,707,503	5,391,396	21,824,397	21,491,350
Restricted.....	800,879	674,893	-	-	800,879	674,893
Unrestricted.....	850,730	906,792	1,000,527	862,750	1,851,257	1,769,542
Total net assets.....	<u>\$ 17,768,503</u>	<u>\$ 17,681,639</u>	<u>\$ 6,708,030</u>	<u>\$ 6,254,146</u>	<u>\$ 24,476,533</u>	<u>\$ 23,935,785</u>

The largest portion of the Town's net assets (89.1%) reflects its investment in capital assets (e.g., land, works of art, land improvements, buildings and improvements, machinery and equipment, library books, vehicles and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (3.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (7.6% or \$1,851,257) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$850,730 may be used to support governmental activities and \$1,000,527 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, 2012, the Town's total net assets increased by \$540,748, compared to an increase of \$2,718,197 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 1,390,291	\$ 1,313,249	\$ 1,455,015	\$ 1,535,393	\$ 2,845,306	\$ 2,848,642
Operating grants and contributions.....	757,776	966,337	1,108	-	758,884	966,337
Capital grants and contributions.....	524,769	2,465,396	-	-	524,769	2,465,396
<i>General Revenues:</i>						
Real estate and personal property taxes.....	7,580,152	7,438,764	-	-	7,580,152	7,438,764
Motor vehicle and other excise taxes.....	457,393	459,766	-	-	457,393	459,766
Penalties and interest on taxes.....	38,927	57,413	-	-	38,927	57,413
Payments in lieu of taxes.....	2,083	2,079	-	-	2,083	2,079
Community preservation surcharges.....	171,535	171,314	-	-	171,535	171,314
Grants and contributions not restricted to specific programs.....	996,626	1,037,271	-	-	996,626	1,037,271
Unrestricted investment income.....	2,427	2,494	-	-	2,427	2,494
Total revenues.....	11,921,979	13,914,083	1,456,123	1,535,393	13,378,102	15,449,476
Expenses						
General government.....	1,634,965	1,492,654	-	-	1,634,965	1,492,654
Public safety.....	3,061,810	2,899,450	-	-	3,061,810	2,899,450
Education.....	4,795,259	4,917,257	-	-	4,795,259	4,917,257
Public works.....	723,499	764,225	-	-	723,499	764,225
Trash disposal.....	334,970	321,204	-	-	334,970	321,204
Health and human services.....	163,284	143,487	-	-	163,284	143,487
Culture and recreation.....	458,552	516,740	-	-	458,552	516,740
Debt service - interest.....	241,836	273,915	-	-	241,836	273,915
Water/Sewer.....	-	-	1,423,179	1,402,347	1,423,179	1,402,347
Total expenses.....	11,414,175	11,328,932	1,423,179	1,402,347	12,837,354	12,731,279
Change in net assets before transfers.....	507,804	2,585,151	32,944	133,046	540,748	2,718,197
Transfers, net.....	(420,940)	(159,138)	420,940	159,138	-	-
Change in net assets.....	86,864	2,426,013	453,884	292,184	540,748	2,718,197
Net assets - beginning of year.....	17,681,639	15,255,626	6,254,146	5,961,962	23,935,785	21,217,588
Net assets - end of year.....	\$ 17,768,503	\$ 17,681,639	\$ 6,708,030	\$ 6,254,146	\$ 24,476,533	\$ 23,935,785

Governmental activities increased the Town's net assets by \$86,864. In the prior year, governmental activities increased the Town's net assets by \$2,426,013. The key elements of this change relate to a decrease in capital contributions (approximately \$1,600,000) to the community center and life saving station and a transfer to the water/sewer enterprise fund related to prior years' net water/sewer cash activity balances (\$260,529) reclassified from the general fund to the water/sewer enterprise fund prior to the Town's legal adoption of the water/sewer enterprise fund.

Business-type activities increased the Town's net assets by \$453,884. In the prior year, business-type activities increased the Town's net assets by \$292,184. The key element of this change is a transfer from the general fund related to prior years' net water/sewer cash activity balances (\$260,529) reclassified from the general fund to the water/sewer enterprise fund prior to the Town's legal adoption of the water/sewer enterprise fund.

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 (\$60,667), an increase of \$81,583 in comparison with the prior year. Unassigned fund balance totaled (\$1,461,331), resulting from temporary fund deficits in the Coast Guard houses capital projects fund and several nonmajor governmental funds. The remainder of fund balance includes the following constraints:

- Nonspendable - \$25,150
- Restricted - \$856,080
- Committed - \$433,898
- Assigned - \$85,536

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 \$680,062, while total fund balance was \$1,199,496. 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 6.4% of total general fund expenditures and transfers out, while total fund balance represents 11.2% of that same amount.

The balance of the Town's general fund increased \$86,813 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 \$712,000 (excluding encumbrances and continuing appropriations), approximately \$254,000 of reserves were used to fund the fiscal year 2012 budget. In addition, the general fund transferred \$260,529 to the water/sewer enterprise fund related to prior years' net water/sewer cash activity balances reclassified from the general fund to the water/sewer enterprise fund prior to the legal adoption of the water/sewer enterprise fund.

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

The fund balance of the community preservation fund (special revenue) increased by \$29,735 during the current fiscal year. The fund recognized \$172,138 in surcharges, \$101,495 in intergovernmental revenues and \$622 of investment income. Expenditures of \$244,520 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 \$1,000,527. The water/sewer fund had an increase in net assets for the year of \$453,884. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$10,029,199 was increased by \$44,450 (0.4%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase/Decrease</u>	<u>Amount</u>	<u>Funding Source</u>
School department.....	\$ 44,450	Unassigned fund balance
Transfer to dredging capital projects fund.....	25,000	Unassigned fund balance
Reserve fund transfer.....	<u>(25,000)</u>	Unassigned fund balance
 Total net increase.....	 \$ <u>44,450</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 \$626,000.

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 \$30,222,800 (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 \$1,433 (a \$279,020 decrease for governmental activities and a \$280,453 increase for business-type activities).

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

- Purchase of water meters (\$232,000)
- Continued upgrades of water mains (\$138,000)
- Bear Pond dredging (\$91,000)
- Coast guard station improvements (\$90,000)
- Continued upgrades of road and sidewalk infrastructure (\$86,000)

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land.....	\$ 7,669,465	\$ 7,663,885	\$ -	\$ -	\$ 7,669,465	\$ 7,663,885
Works of art.....	110,500	110,500	-	-	110,500	110,500
Land improvements.....	589,778	373,774	-	-	589,778	373,774
Buildings & improvements.....	12,093,952	12,449,038	-	-	12,093,952	12,449,038
Machinery and equipment.....	881,245	969,342	95,755	106,793	977,000	1,076,135
Library books.....	188,761	181,180	-	-	188,761	181,180
Vehicles.....	261,222	276,191	93,793	49,154	355,015	325,345
Infrastructure.....	<u>1,298,065</u>	<u>1,348,098</u>	<u>6,940,264</u>	<u>6,693,412</u>	<u>8,238,329</u>	<u>8,041,510</u>
 Total capital assets.....	 \$ <u>23,092,988</u>	 \$ <u>23,372,008</u>	 \$ <u>7,129,812</u>	 \$ <u>6,849,359</u>	 \$ <u>30,222,800</u>	 \$ <u>30,221,367</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 40-41 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$6,942,940, 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>	
	2012	2011	2012	2011	2012	2011
General obligation bonds.....	\$ 4,939,500	\$ 5,373,000	\$ 905,040	\$ 1,015,850	\$ 5,844,540	\$ 6,388,850
MWRA notes.....	-	-	1,098,400	442,113	1,098,400	442,113
Total bonds and notes.....	<u>\$ 4,939,500</u>	<u>\$ 5,373,000</u>	<u>\$ 2,003,440</u>	<u>\$ 1,457,963</u>	<u>\$ 6,942,940</u>	<u>\$ 6,830,963</u>

The Town’s total bonded debt increased by \$111,977 (1.6%) during the current fiscal year; the Town issued \$750,000 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 44-46 of this report.

Economic Factors and Next Year’s Budgets and Rates

The development of the fiscal year 2013 general fund operating budget was influenced by four major factors: slight increased revenue, contractual obligations, increased uncontrollable expenses, and limitations on the property tax levy imposed by Proposition 2 ½.

Budgeted revenue increased slightly and was mainly due to a 2% increase in state aid (after a 7% reduction in fiscal year 2012 on top of a 10% reduction from fiscal year 2011 and a 15% reduction from fiscal year 2010) and 1% increase in total local receipts.

Approximately 90% of school employees and 75% of municipal employees are covered by collective bargaining agreements. In fiscal year 2013, all non-school employees received 3% increases due to all union and other contracted negotiations. The firefighters’ union negotiated new officers’ positions and the fire chief negotiated a full time fire chief position (non-shift working chief, as in the past). School teachers’ negotiated a 2% increase and added positions. The Election/Registration appropriation was increased 40% due to fiscal year 2013 being a presidential election year. The Town also increased the Town Clerk’s salary by 19% to be more in line with other towns. The North Shore Vocational School Assessment was increased by 21%.

Health insurance increased 4.6%, Essex Regional Retirement Board assessment increased 6.7% and property insurance increased 24%.

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 \$160,420 (2.08%).

Due to limited new debt, a 6.7% decrease in debt payments, limited new capital, and the limited increases of salaries and expenses of all departmental budgets, the Town was able to approve a budget with increased staff. The exception is the Town Administrator’s position became part-time.

Due to decreased enrollment and special education costs, school spending has been limited.

Rubbish rates have been set as a flat rate per household and the Town has established a Rubbish Enterprise Fund starting in fiscal year 2013.

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, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 1,686,592	\$ 763,221	\$ 2,449,813
Restricted cash and cash equivalents.....	1,121,899	581,131	1,703,030
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	98,290	-	98,290
Tax and utility liens.....	162,671	8,831	171,502
Motor vehicle and other excise taxes.....	73,124	-	73,124
Community preservation surcharges.....	1,752	-	1,752
Water.....	-	153,449	153,449
Sewer.....	-	189,633	189,633
Trash.....	16,567	-	16,567
Parking violations.....	7,057	-	7,057
Departmental and other.....	23,426	-	23,426
Intergovernmental.....	12,878	-	12,878
Total current assets.....	3,204,256	1,696,265	4,900,521
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	124,884	-	124,884
Capital assets not being depreciated.....	7,779,965	-	7,779,965
Capital assets, net of accumulated depreciation.....	15,313,023	7,129,812	22,442,835
Total noncurrent assets.....	23,217,872	7,129,812	30,347,684
Total assets.....	26,422,128	8,826,077	35,248,205
LIABILITIES			
Current liabilities:			
Warrants payable.....	363,494	38,057	401,551
Accrued payroll.....	59,859	6,390	66,249
Tax refunds payable.....	65,741	-	65,741
Other liabilities.....	9,109	-	9,109
Accrued interest.....	94,598	-	94,598
Compensated absences.....	25,300	2,800	28,100
Short-term notes payable.....	2,354,000	-	2,354,000
Long-term bonds and notes payable.....	414,500	265,210	679,710
Total current liabilities.....	3,386,601	312,457	3,699,058
Noncurrent liabilities:			
Compensated absences.....	227,700	25,200	252,900
Net OPEB obligation.....	514,324	42,160	556,484
Long-term bonds and notes payable.....	4,525,000	1,738,230	6,263,230
Total noncurrent liabilities.....	5,267,024	1,805,590	7,072,614
Total liabilities.....	8,653,625	2,118,047	10,771,672
NET ASSETS			
Invested in capital assets, net of related debt.....	16,116,894	5,707,503	21,824,397
Restricted for:			
Community preservation.....	390,096	-	390,096
Permanent funds:			
Expendable.....	58,416	-	58,416
Nonexpendable.....	25,150	-	25,150
Other specific purposes.....	327,217	-	327,217
Unrestricted.....	850,730	1,000,527	1,851,257
Total net assets.....	\$ 17,768,503	\$ 6,708,030	\$ 24,476,533

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 1,634,965	\$ 525,896	\$ 28,192	\$ 352,274	\$ (728,603)
Public safety.....	3,061,810	80,345	26,335	-	(2,955,130)
Education.....	4,795,259	221,531	616,105	-	(3,957,623)
Public works.....	723,499	111,770	48,724	71,000	(492,005)
Trash disposal.....	334,970	399,078	-	-	64,108
Health and human services.....	163,284	13,962	6,631	-	(142,691)
Culture and recreation.....	458,552	37,709	11,899	101,495	(307,449)
Debt service - interest.....	241,836	-	19,890	-	(221,946)
Total governmental activities.....	<u>11,414,175</u>	<u>1,390,291</u>	<u>757,776</u>	<u>524,769</u>	<u>(8,741,339)</u>
Business-type activities:					
Water/Sewer.....	<u>1,423,179</u>	<u>1,455,015</u>	<u>1,108</u>	<u>-</u>	<u>32,944</u>
Total primary government.....	<u>\$ 12,837,354</u>	<u>\$ 2,845,306</u>	<u>\$ 758,884</u>	<u>\$ 524,769</u>	<u>\$ (8,708,395)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (8,741,339)	\$ 32,944	\$ (8,708,395)
<i>General revenues:</i>			
Real estate and personal property taxes.....	7,580,152	-	7,580,152
Motor vehicle and other excise taxes.....	457,393	-	457,393
Penalties and interest on taxes.....	38,927	-	38,927
Payments in lieu of taxes.....	2,083	-	2,083
Community preservation surcharges.....	171,535	-	171,535
Grants and contributions not restricted to specific programs.....	996,626	-	996,626
Unrestricted investment income.....	2,427	-	2,427
<i>Transfers, net</i>	(420,940)	420,940	-
Total general revenues and transfers.....	8,828,203	420,940	9,249,143
Change in net assets.....	86,864	453,884	540,748
Net assets - beginning of year.....	17,681,639	6,254,146	23,935,785
Net assets - end of year.....	\$ 17,768,503	\$ 6,708,030	\$ 24,476,533

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

ASSETS	General	Community Preservation	Coast Guard Houses
Cash and cash equivalents.....	\$ 1,686,592	\$ -	\$ -
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	98,290	-	-
Real estate tax deferrals.....	124,884	-	-
Tax and trash liens.....	159,754	2,917	-
Motor vehicle and other excise taxes.....	73,124	-	-
Community preservation surcharges.....	-	1,752	-
Trash.....	16,567	-	-
Parking violations.....	7,057	-	-
Departmental and other.....	23,426	-	-
Intergovernmental.....	-	-	-
Restricted assets:			
Cash and cash equivalents.....	-	385,504	-
TOTAL ASSETS.....	\$ 2,189,694	\$ 390,173	\$ -
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 338,101	\$ 77	\$ -
Accrued payroll.....	57,190	-	-
Tax refunds payable.....	65,741	-	-
Other liabilities.....	9,109	-	-
Deferred revenue.....	487,792	4,669	-
Accrued short-term interest.....	32,265	-	-
Short-term notes payable.....	-	-	1,866,000
TOTAL LIABILITIES.....	990,198	4,746	1,866,000
 FUND BALANCES:			
Nonspendable.....	-	-	-
Restricted.....	-	385,427	-
Committed.....	433,898	-	-
Assigned.....	85,536	-	-
Unassigned.....	680,062	-	(1,866,000)
TOTAL FUND BALANCES.....	1,199,496	385,427	(1,866,000)
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 2,189,694	\$ 390,173	\$ -

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,686,592
-	98,290
-	124,884
-	162,671
-	73,124
-	1,752
-	16,567
-	7,057
-	23,426
12,878	12,878
<u>736,395</u>	<u>1,121,899</u>
<u>\$ 749,273</u>	<u>\$ 3,329,140</u>

\$ 25,316	\$ 363,494
2,669	59,859
-	65,741
-	9,109
12,878	505,339
-	32,265
<u>488,000</u>	<u>2,354,000</u>
<u>528,863</u>	<u>3,389,807</u>
25,150	25,150
470,653	856,080
-	433,898
-	85,536
<u>(275,393)</u>	<u>(1,461,331)</u>
<u>220,410</u>	<u>(60,667)</u>
<u>\$ 749,273</u>	<u>\$ 3,329,140</u>

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Community Preservation	Coast Guard Houses
REVENUES			
Real estate and personal property taxes.....	\$ 7,522,222	\$ -	\$ -
Motor vehicle and other excise taxes.....	452,681	-	-
Tax liens.....	54,262	-	-
Payments in lieu of taxes.....	2,083	-	-
Community preservation surcharges.....	-	172,138	-
Charges for services.....	3,280	-	-
Trash disposal.....	392,971	-	-
Intergovernmental.....	1,437,092	101,495	-
Penalties and interest on taxes.....	38,927	-	-
Licenses and permits.....	97,613	-	-
Fines and forfeitures.....	38,261	-	-
Departmental and other.....	544,913	-	-
Contributions.....	-	-	-
Investment income.....	2,722	622	-
TOTAL REVENUES.....	10,587,027	274,255	-
EXPENDITURES			
Current:			
General government.....	873,316	161,366	-
Public safety.....	2,109,386	-	-
Education.....	3,153,755	-	-
Public works.....	411,751	-	-
Trash disposal.....	332,609	-	-
Health and human services.....	51,929	-	-
Culture and recreation.....	241,443	2,568	-
Pension benefits.....	1,140,987	-	-
Employee benefits.....	855,879	-	-
Property and liability insurance.....	141,915	-	-
State and county charges.....	122,726	-	-
Debt service:			
Principal.....	371,000	62,500	-
Interest.....	228,468	18,086	-
TOTAL EXPENDITURES.....	10,035,164	244,520	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	551,863	29,735	-
OTHER FINANCING SOURCES (USES)			
Transfers in.....	181,008	-	-
Premium from issuance of bonds and notes.....	19,890	-	-
Transfers out.....	(665,948)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	(465,050)	-	-
NET CHANGE IN FUND BALANCES.....	86,813	29,735	-
FUND BALANCES AT BEGINNING OF YEAR.....	1,112,683	355,692	(1,866,000)
FUND BALANCES AT END OF YEAR.....	\$ 1,199,496	\$ 385,427	\$ (1,866,000)

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 7,522,222
-	452,681
-	54,262
-	2,083
-	172,138
212,831	216,111
-	392,971
289,479	1,828,066
-	38,927
-	97,613
-	38,261
125,391	670,304
53,299	53,299
453	3,797
<u>681,453</u>	<u>11,542,735</u>
18,737	1,053,419
11,259	2,120,645
366,586	3,520,341
302,186	713,937
-	332,609
19,724	71,653
61,926	305,937
-	1,140,987
-	855,879
-	141,915
-	122,726
-	433,500
-	246,554
<u>780,418</u>	<u>11,060,102</u>
<u>(98,965)</u>	<u>482,633</u>
64,000	245,008
-	19,890
-	(665,948)
<u>64,000</u>	<u>(401,050)</u>
(34,965)	81,583
<u>255,375</u>	<u>(142,250)</u>
<u>\$ 220,410</u>	<u>\$ (60,667)</u>

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

JUNE 30, 2012

Total governmental fund balances (page 19).....	\$	(60,667)
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		23,092,988
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		505,339
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.....		(62,333)
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.....		(4,939,500)
Compensated absences.....		(253,000)
Net OPEB obligation.....		<u>(514,324)</u>
Net assets of governmental activities (page 15).....	\$	<u>17,768,503</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, 2012

Net change in fund balances - total governmental funds (page 21).....	\$	81,583
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		488,798
Depreciation.....		(798,248)
<p>Contributed capital assets are reported in the statement of activities as capital contributions but are not reported in the governmental funds.....</p>		
		35,277
<p>In the statement of activities, the <i>loss</i> 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.....</p>		
		(4,850)
<p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		7,075
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount represents the related activity of the current period.</p>		
Bond maturities.....		433,500
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		4,725
<p>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:</p>		
Compensated absences.....		4,000
Net OPEB obligation.....		(164,996)
		86,864
Changes in net assets of governmental activities (page 17).....	\$	86,864

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS

JUNE 30, 2012

		Business-Type Activities- Enterprise Fund
ASSETS		Water/Sewer
Current assets:		
Cash and cash equivalents.....	\$	763,221
Restricted cash and cash equivalents.....		581,131
Receivables, net of allowance for uncollectible amounts:		
Water.....		153,449
Sewer.....		189,633
Utility liens.....		8,831
Total current assets.....		1,696,265
Noncurrent assets:		
Capital assets, net of accumulated depreciation.....		7,129,812
Total assets.....		8,826,077
LIABILITIES		
Current liabilities:		
Warrants payable.....		38,057
Accrued payroll.....		6,390
Compensated absences.....		2,800
Long-term bonds and notes payable.....		265,210
Total current liabilities.....		312,457
Noncurrent liabilities:		
Compensated absences.....		25,200
Net OPEB obligation.....		42,160
Long-term bonds and notes payable.....		1,738,230
Total noncurrent liabilities.....		1,805,590
Total liabilities.....		2,118,047
NET ASSETS		
Invested in capital assets, net of related debt.....		5,707,503
Unrestricted.....		1,000,527
Total net assets.....	\$	6,708,030

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-Type Activities- Enterprise Fund
	Water/Sewer
OPERATING REVENUES	
Charges for services.....	\$ 1,455,015
OPERATING EXPENSES	
Cost of service and administration.....	678,117
MWRA assessment.....	323,512
Lynn assessment.....	121,355
Depreciation.....	253,301
TOTAL OPERATING EXPENSES.....	1,376,284
OPERATING INCOME (LOSS).....	78,731
NONOPERATING REVENUES (EXPENSES)	
Investment income.....	1,108
Interest expense.....	(46,895)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(45,787)
INCOME (LOSS) BEFORE TRANSFERS.....	32,944
TRANSFERS	
Transfers in.....	601,948
Transfers out.....	(181,008)
TOTAL TRANSFERS.....	420,940
CHANGE IN NET ASSETS.....	453,884
NET ASSETS AT BEGINNING OF YEAR.....	6,254,146
NET ASSETS AT END OF YEAR.....	\$ 6,708,030

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-Type Activities- Enterprise Fund
	Water/Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users.....	\$ 1,428,289
Payments to vendors.....	(751,224)
Payments to employees.....	(327,396)
	349,669
NET CASH FROM OPERATING ACTIVITIES.....	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in.....	601,948
Transfers out.....	(181,008)
	420,940
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from the issuance of bonds and notes.....	750,000
Acquisition and construction of capital assets.....	(533,756)
Principal payments on bonds and notes.....	(204,523)
Interest expense.....	(46,895)
	(35,174)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income.....	1,108
	736,543
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	
(Includes \$140,765 reported as restricted).....	607,809
CASH AND CASH EQUIVALENTS AT END OF YEAR	
(Includes \$581,131 reported as restricted).....	\$ 1,344,352
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES	
Operating income.....	\$ 78,731
Adjustments to reconcile operating income to net cash from operating activities:	
Adjustments not requiring current cash flows:	
Depreciation.....	253,301
Net OPEB obligation.....	13,248
Adjustments requiring current cash flows:	
Changes in assets and liabilities:	
Utility liens.....	(7,904)
User charges.....	(18,822)
Warrants payable.....	29,594
Accrued payroll.....	(3,479)
Compensated absences.....	5,000
	270,938
Total adjustments.....	270,938
NET CASH FROM OPERATING ACTIVITIES.....	\$ 349,669

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

ASSETS	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ <u><u>37,975</u></u>
LIABILITIES	
Warrants payable.....	80
Accrued payroll.....	1,388
Liabilities due depositors.....	<u>36,507</u>
Total liabilities.....	\$ <u><u>37,975</u></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 2012 Assessment</u>
North Shore Regional Vocational School District.....	To provide vocational education services	30 Log Bridge Road Middleton, MA 01949	\$ 90,845

The Town is indirectly liable for the Northeast Metropolitan Regional Vocational School District's (District) debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

C. Government-Wide and Fund Financial StatementsGovernment-Wide Financial Statements

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

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

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

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

The *general fund* is 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 primarily of special permit payments from cellular phone and wireless service providers held in escrow and student activity funds. Agency funds do not present the results of operations or have a measurement focus.

E. Cash and Cash Equivalents and Investments

Government-Wide and Fund Financial Statements

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

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Real Estate Tax Deferrals, Personal Property Taxes and Tax Liens

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

Real estate tax liens are processed during the fourth quarter of each fiscal year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

Community Preservation Surcharges

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

Water and Sewer and Utility Liens

User fees are levied tri-annually based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed during the fourth quarter of each fiscal year and are included as a lien on the property owner's tax bill. Water and sewer charges and liens are recorded as receivables in the fiscal year issued.

Trash

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

Parking Violations

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

Departmental and Other

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

Intergovernmental

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

G. Allowance for Uncollectible Amounts

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

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

As of June 30, 2012, 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 charges and utility liens
- Trash

Intergovernmental receivables are considered 100% collectible.

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

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

*I. Restricted Assets*Government-Wide and Fund Financial Statements

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

*J. Capital Assets*Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, works of art, land improvements, buildings and improvements, machinery and equipment, library books, vehicles and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Construction period interest is not capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	10 - 30
Buildings and improvements.....	6 - 40
Machinery and equipment.....	3 - 40
Library books.....	3 - 10
Vehicles.....	3 - 15
Infrastructure.....	5 - 50

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

Governmental Fund Financial Statements

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

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

N. Net Assets and Fund 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 other 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.

O. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

P. Investment Income

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

Investment income from the water/sewer enterprise fund is retained in the fund.

Q. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

R. Post Retirement Benefits

Government-Wide and Fund Financial Statements

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

S. Use of Estimates

Government-Wide and Fund Financial Statements

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

T. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote. Increases to the 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 and community preservation (CPA) fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget for the general fund authorized \$10,029,199 in appropriations. During fiscal year 2012, supplemental appropriations totaling \$44,450 for the general fund were authorized. The original and final fiscal year 2012 approved budget for the CPA fund authorized \$305,826 in appropriations.

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, 2012, 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.....	122,834	Issuance of long-term debt
Bear Pond.....	108,247	Issuance of long-term debt
Fire radios and breathing apparatus.....	36,256	Issuance of long-term debt
School SPED Grant PL 94-142.....	8,056	Federal grant

C. Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2012, expenditures exceeded appropriations for state and county charges.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds are held separately from other Town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2012, \$2,305,778 of the Town's bank balance of \$3,532,641 was uninsured and uncollateralized and exposed to custodial credit risk.

Investments Summary

The Town's investment at June 30, 2012 consisted of \$744,419 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, 2012, 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, 2012, 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, 2012, the Town's investment in MMDT did not have a credit quality rating.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2012, 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.....	\$ 98,290	\$ -	\$ 98,290
Real estate tax deferrals.....	124,884	-	124,884
Tax and trash liens.....	162,671	-	162,671
Motor vehicle and other excise taxes.....	73,124	-	73,124
Community preservation surcharges.....	1,752	-	1,752
Trash.....	16,567	-	16,567
Parking violations.....	119,437	(112,380)	7,057
Departmental and other.....	23,426	-	23,426
Intergovernmental.....	12,878	-	12,878
	<u>\$ 633,029</u>	<u>\$ (112,380)</u>	<u>\$ 520,649</u>

At June 30, 2012, 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.....	\$ 153,449	\$ -	\$ 153,449
Sewer.....	189,633	-	189,633
Utility liens.....	8,831	-	8,831
	<u>\$ 351,913</u>	<u>\$ -</u>	<u>\$ 351,913</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.....	\$ 82,980	\$ -		\$ 82,980
Real estate tax deferrals.....	124,884	-		124,884
Tax and trash liens.....	159,754	2,917	(a)	162,671
Motor vehicle and other excise taxes.....	73,124	-		73,124
Community preservation surcharges.....	-	1,752	(a)	1,752
Trash.....	16,567	-		16,567
Parking violations.....	7,057	-		7,057
Departmental and other.....	23,426	-		23,426
Intergovernmental (other state and federal).....	-	12,878	(b)	12,878
	<u>\$ 487,792</u>	<u>\$ 17,547</u>		<u>\$ 505,339</u>

(a) Community Preservation Fund (Major Fund)

(b) Nonmajor Governmental Funds

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 7,663,885	\$ 5,580	\$ -	\$ 7,669,465
Works of art.....	110,500	-	-	110,500
Total capital assets not being depreciated.....	<u>7,774,385</u>	<u>5,580</u>	<u>-</u>	<u>7,779,965</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	688,143	245,371	-	933,514
Buildings and improvements.....	16,753,426	47,145	-	16,800,571
Machinery and equipment.....	2,267,860	53,183	-	2,321,043
Library books.....	530,629	42,451	-	573,081
Vehicles.....	976,196	44,501	(9,700)	1,010,997
Infrastructure.....	2,854,677	85,844	-	2,940,521
Total capital assets being depreciated.....	<u>24,070,931</u>	<u>518,495</u>	<u>(9,700)</u>	<u>24,579,727</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(314,369)	(29,367)	-	(343,736)
Buildings and improvements.....	(4,304,388)	(402,231)	-	(4,706,619)
Machinery and equipment.....	(1,298,518)	(141,281)	-	(1,439,798)
Library books.....	(349,449)	(34,871)	-	(384,320)
Vehicles.....	(700,005)	(54,620)	4,850	(749,775)
Infrastructure.....	(1,506,579)	(135,878)	-	(1,642,456)
Total accumulated depreciation.....	<u>(8,473,308)</u>	<u>(798,248)</u>	<u>4,850</u>	<u>(9,266,704)</u>
Total capital assets being depreciated, net.....	<u>15,597,623</u>	<u>(279,753)</u>	<u>(4,850)</u>	<u>15,313,023</u>
Total governmental activities capital assets, net.....	<u>\$ 23,372,008</u>	<u>\$ (274,173)</u>	<u>\$ (4,850)</u>	<u>\$ 23,092,988</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ 130,226	\$ -	\$ -	\$ 130,226
Vehicles.....	54,616	61,736	-	116,352
Infrastructure.....	10,391,349	472,020	-	10,863,368
	<u>10,576,191</u>	<u>533,756</u>	<u>-</u>	<u>11,109,946</u>
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(23,433)	(11,038)	-	(34,471)
Vehicles.....	(5,462)	(17,097)	-	(22,559)
Infrastructure.....	(3,697,937)	(225,166)	-	(3,923,104)
	<u>(3,726,832)</u>	<u>(253,301)</u>	<u>-</u>	<u>(3,980,134)</u>
Total business-type activities capital assets, net.....	<u>\$ 6,849,359</u>	<u>\$ 280,455</u>	<u>\$ -</u>	<u>\$ 7,129,812</u>

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

Governmental Activities:

General government.....	\$ 82,915
Public safety.....	123,880
Education.....	244,235
Public works.....	176,775
Culture and recreation.....	170,443

Total depreciation expense - governmental activities..... \$ 798,248

Business-Type Activities:

Water/Sewer.....	\$ 253,301
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NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Transfers Out:	Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Water/Sewer Enterprise Fund	
General Fund.....	\$ -	\$ 64,000	\$ 601,948	\$ 665,948 (1)
Water/Sewer Enterprise Fund.....	181,008	-	-	181,008 (2)
	<u>\$ 181,008</u>	<u>\$ 64,000</u>	<u>\$ 601,948</u>	<u>\$ 846,956</u>

(1) Represents budgeted transfers to wharf special revenue fund (\$17,000), dredging capital project fund (\$25,000), street and sidewalk paving and fire department equipment capital projects funds to pay down short-term notes (\$22,000) and the water/sewer enterprise fund to pay debt service (\$341,419). Also represents transfer of prior years' net water/sewer cash activity balances (\$260,529) reclassified from the general fund to the water/sewer enterprise fund prior to the Town's legal adoption of the water/sewer enterprise fund.

(2) Represents transfer of indirect costs to the general fund (\$181,008)

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, 2012, is as follows:

Notes Payable – Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2011	Increases	Decreases	Balance at 6/30/2012
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)	-
RAN	Revenue anticipation note.....	07/08/11	05/15/12	1.25%	-	1,300,000	(1,300,000)	-
BAN	Bear pond drainage.....	07/08/11	07/06/12	1.50%	-	250,000	-	250,000
BAN	Road and sidewalk paving.....	07/08/11	07/06/12	1.50%	-	100,000	-	100,000
BAN	Street and sidewalk paving.....	07/08/11	07/06/12	1.50%	-	100,000	(10,000)	90,000
BAN	Fire department equipment.....	07/08/11	07/06/12	1.50%	-	60,000	(12,000)	48,000
BAN	Coast Guard houses.....	10/13/11	10/12/12	1.50%	-	1,866,000	-	1,866,000
Total.....					\$ 2,026,000	\$ 3,676,000	\$ (3,348,000)	\$ 2,354,000

Subsequent Events

On July 6, 2012, the Town issued a RAN in the amount of \$1,300,000 at an interest rate of 0.75% and maturity date of May 16, 2013.

On July 6, 2012, the Town paid down \$25,000 of the Bear Pond drainage BAN and renewed the BAN in the amount of \$225,000 at an interest rate of 0.60% with a maturity date of July 18, 2013.

On July 6, 2012, the Town paid down \$35,000 of the road and sidewalk paving BAN and renewed the BAN in the amount of \$65,000 at an interest rate of 0.60% with a maturity date of July 18, 2013.

On July 6, 2012, the Town renewed the street and sidewalk BAN in the amount of \$90,000 at an interest rate of 0.60% with a maturity date of July 18, 2013.

On July 6, 2012, the Town paid down \$19,000 of the fire department equipment BAN and renewed the BAN in the amount of \$29,000 at an interest rate of 0.60% with a maturity date of July 18, 2013.

On July 6, 2012, the Town issued a new BAN in the amount of \$100,000 for street and sidewalk paving at an interest rate of 0.60% with a maturity date of July 18, 2013.

On July 6, 2012, the Town issued a new BAN in the amount of \$60,000 for fire department equipment at an interest rate of 0.60% with a maturity date of July 18, 2013.

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, 2012:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 5,373,000	\$ -	\$ (433,500)	\$ 4,939,500	\$ 414,500
Net OPEB obligation.....	349,328	371,546	(206,550)	514,324	-
Compensated absences.....	257,000	-	(4,000)	253,000	25,300
Total.....	\$ 5,979,328	\$ 371,546	\$ (644,050)	\$ 5,706,824	\$ 439,800
Business-type Activities:					
Bonds and notes payable.....	\$ 1,457,963	\$ 750,000	\$ (204,523)	\$ 2,003,440	\$ 265,210
Net OPEB obligation.....	28,912	30,456	(17,208)	42,160	-
Compensated absences.....	23,000	5,000	-	28,000	2,800
Total.....	\$ 1,509,875	\$ 785,456	\$ (221,731)	\$ 2,073,600	\$ 268,010

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

Details related to the outstanding indebtedness at June 30, 2012, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
School remodeling.....	3.75% - 5.00%	\$ 4,490,000	\$ -	\$ (300,000)	\$ 4,190,000
DPW dump truck.....	3.375% - 3.50%	9,000	-	(9,000)	-
Fire department truck.....	3.375% - 3.50%	10,000	-	(10,000)	-
Johnson school roof.....	3.375% - 4.25%	139,000	-	(14,500)	124,500
Building reconstruction.....	3.375% - 4.25%	500,000	-	(62,500)	437,500
School road/traffic.....	3.375% - 4.25%	100,000	-	(12,500)	87,500
Remodeling.....	3.375% - 4.25%	80,000	-	(10,000)	70,000
Departmental equipment.....	3.375% - 3.50%	45,000	-	(15,000)	30,000
Total governmental funds.....		\$ 5,373,000	\$ -	\$ (433,500)	\$ 4,939,500

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
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.....	\$ 4,939,500	\$ 1,299,344	\$ 6,238,844

Bonds and Notes Payable - Enterprise Fund

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Sewer project.....	5.00%	\$ 390,000	\$ -	\$ (32,500)	\$ 357,500
Sewer project.....	5.00%	97,700	-	(7,400)	90,300
Sewer project.....	5.00%	141,150	-	(9,410)	131,740
Water note (MWRA).....	0.00%	13,313	-	(13,313)	-
Water note (MWRA).....	0.00%	26,800	-	(13,400)	13,400
Water note (MWRA).....	0.00%	40,200	-	(13,400)	26,800
Water note (MWRA).....	0.00%	134,000	-	(26,800)	107,200
Water note (MWRA).....	0.00%	93,800	-	(13,400)	80,400
Sewer project.....	3.75% - 5.00%	90,000	-	(15,000)	75,000
Sewer project.....	3.75% - 5.00%	180,000	-	(30,000)	150,000
Water projects.....	3.375% - 4.25%	57,000	-	(9,000)	48,000
Sewer project.....	3.375% - 4.25%	60,000	-	(7,500)	52,500
Water note (MWRA).....	0.00%	134,000	-	(13,400)	120,600
Water note (MWRA).....	0.00%	-	750,000	-	750,000
Total enterprise fund.....		\$ 1,457,963	\$ 750,000	\$ (204,523)	\$ 2,003,440

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 2012, the Town received a non-interest bearing MWRA loan in the amount of \$750,000. At June 30, 2012, the outstanding principal amount of MWRA loans totaled \$1,098,400.

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>
2013.....	\$ 265,210	\$ 41,649	\$ 306,859
2014.....	251,810	36,952	288,762
2015.....	238,410	31,956	270,366
2016.....	238,410	26,753	265,163
2017.....	211,610	21,530	233,140
2018.....	166,610	17,298	183,908
2019.....	145,210	14,344	159,554
2020.....	137,710	11,720	149,430
2021.....	137,710	9,255	146,965
2022.....	124,310	6,788	131,098
2023.....	49,310	4,323	53,633
2024.....	16,810	1,858	18,668
2025.....	10,910	1,018	11,928
2026.....	9,410	470	9,880
Total.....	\$ 2,003,440	\$ 225,914	\$ 2,229,354

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, 2012, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Coast guard houses.....	\$ 1,866,000 *
Bear pond drainage.....	250,000 *
Road and sidewalk paving.....	100,000 *
Paving.....	100,000 **
Street and sidewalk paving.....	90,000 *
Fire truck.....	60,000 **
Fire department equipment.....	48,000 *
Total.....	\$ 2,514,000

* A BAN is outstanding for this amount as of June 30, 2012

** A BAN was issued for this amount subsequent to June 30, 2012

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.....	\$ 406,163
Interest on net OPEB obligation.....	11,347
Adjustment to annual required contribution.....	<u>(15,508)</u>
Annual OPEB cost.....	402,002
Contributions made.....	<u>(223,758)</u>
Increase in net OPEB obligation.....	178,244
Net OPEB obligation at beginning of year.....	<u>378,240</u>
Net OPEB obligation at end of year.....	<u><u>\$ 556,484</u></u>

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u> <u>(AOPEBC)</u>	<u>Percentage</u> <u>of AOPEBC</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2010*.....	\$ 374,868	48.8%	\$ 192,028
June 30, 2011.....	388,173	52.0%	378,240
June 30, 2012.....	402,002	55.7%	556,484

* 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.....	\$ 49,922
Public safety.....	162,122
Education.....	125,181
Public works.....	14,114
Trash disposals.....	2,721
Health and human services.....	3,764
Culture and recreation.....	13,722
Total AOPEBC - governmental activities.....	<u>371,546</u>
Business-Type Activities:	
Water/Sewer.....	<u>30,456</u>
Total AOPEBC.....	<u>\$ 402,002</u>

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
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ 25,150	\$ 25,150
Restricted:					
Community preservation.....	-	385,427	-	292	385,719
Revolving funds.....	-	-	-	60,484	60,484
Town state grants.....	-	-	-	13,396	13,396
Town federal grants.....	-	-	-	53,137	53,137
Wharf.....	-	-	-	96,789	96,789
Capital.....	-	-	-	89,843	89,843
General government.....	-	-	-	14,774	14,774
Education.....	-	-	-	6,870	6,870
Public works.....	-	-	-	5,843	5,843
Culture and recreation.....	-	-	-	36,722	36,722
Other.....	-	-	-	92,503	92,503
Sub-total - Restricted.....	-	<u>385,427</u>	-	<u>470,653</u>	<u>856,080</u>
Committed:					
Subsequent year's expenditures.....	<u>433,898</u>	-	-	-	<u>433,898</u>
Assigned:					
Encumbrances.....	<u>85,536</u>	-	-	-	<u>85,536</u>
Unassigned.....	<u>680,062</u>	-	<u>(1,866,000)</u>	<u>(275,393)</u>	<u>(1,461,331)</u>
Total fund balances.....	\$ <u>1,199,496</u>	\$ <u>385,427</u>	\$ <u>(1,866,000)</u>	\$ <u>220,410</u>	\$ <u>(60,667)</u>

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, 2012 totals \$80,182 and is reported in the general fund as unassigned fund balance.

NOTE 13 - OPERATING LEASES

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

During fiscal year 2012, the Town received approximately \$100,000 in rental fees related to the Golf Club, which are recorded as departmental and other revenue in the general fund. Rental requirements in future fiscal years are as follows:

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

NOTE 14 - 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 15 - 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, 2012, 2011, and 2010 were \$510,778, \$446,854, and \$423,691, respectively, which equaled its required contribution for each fiscal year.

NOTE 16 - 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 \$640,589 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 17 - 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, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2012.

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 18 - 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. Management does not believe the implementation of this Statement will impact the 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. Management does not believe the implementation of this Statement will impact the 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. Management does not believe the implementation of this Statement will impact the 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 2013. The implementation of this Statement will require a change to the title of the Statement of Net Assets to the Statement of Net Position.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is required to be implemented during fiscal year 2014. Management has determined that the implementation of this Statement will not impact the basic financial statements.
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Town will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.

These pronouncements will be implemented by their respective implementation dates.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 7,543,488	\$ -	\$ 7,543,488
Motor vehicle and other excise taxes.....	-	424,389	-	424,389
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	2,075	-	2,075
Charges for services.....	-	2,525	-	2,525
Trash disposal.....	-	380,136	-	380,136
Intergovernmental.....	-	770,249	-	770,249
Penalties and interest on taxes.....	-	27,095	-	27,095
Licenses and permits.....	-	60,450	-	60,450
Fines and forfeitures.....	-	38,100	-	38,100
Departmental and other.....	-	409,762	-	409,762
Investment income.....	-	2,400	-	2,400
TOTAL REVENUES.....	-	9,660,669	-	9,660,669
EXPENDITURES				
Current:				
General government.....	2,000	983,361	(60,982)	924,379
Public safety.....	-	2,113,578	16,750	2,130,328
Education.....	-	2,967,730	188,158	3,155,888
Public works.....	333	408,117	54,640	463,090
Trash disposal.....	-	380,136	(44,608)	335,528
Health and human services.....	-	46,938	5,100	52,038
Culture and recreation.....	-	263,396	-	263,396
Pension benefits.....	-	525,778	(25,350)	500,428
Employee benefits.....	20,178	907,869	(2,973)	925,074
Property and liability insurance.....	-	253,250	(111,285)	141,965
State and county charges.....	-	122,161	-	122,161
Debt service:				
Principal.....	-	450,000	-	450,000
Interest.....	-	226,466	-	226,466
TOTAL EXPENDITURES.....	22,511	9,648,780	19,450	9,690,741
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(22,511)	11,889	(19,450)	(30,072)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	181,008	-	181,008
Premium from issuance of bonds and notes.....	-	-	-	-
Transfers out.....	-	(380,419)	(25,000)	(405,419)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(199,411)	(25,000)	(224,411)
NET CHANGE IN FUND BALANCE.....	(22,511)	(187,522)	(44,450)	(254,483)
FUND BALANCE AT BEGINNING OF YEAR.....	744,825	744,825	744,825	744,825
FUND BALANCE AT END OF YEAR.....	\$ 722,314	\$ 557,303	\$ 700,375	\$ 490,342

See notes to required supplementary information.

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
\$ 7,630,356	\$ -	\$ 7,630,356	\$ 86,868
452,681	-	452,681	28,292
54,262	-	54,262	54,262
2,083	-	2,083	8
3,280	-	3,280	755
392,971	-	392,971	12,835
796,503	-	796,503	26,254
38,927	-	38,927	11,832
97,613	-	97,613	37,163
38,261	-	38,261	161
544,913	-	544,913	135,151
2,427	-	2,427	27
<u>10,054,277</u>	<u>-</u>	<u>10,054,277</u>	<u>393,608</u>
873,316	6,200	879,516	44,863
2,109,386	-	2,109,386	20,942
3,153,755	-	3,153,755	2,133
411,751	-	411,751	51,339
332,609	-	332,609	2,919
51,929	-	51,929	109
241,443	336	241,779	21,617
500,398	-	500,398	30
855,879	-	855,879	69,195
141,915	-	141,915	50
122,726	-	122,726	(565)
371,000	79,000	450,000	-
226,466	-	226,466	-
<u>9,392,573</u>	<u>85,536</u>	<u>9,478,109</u>	<u>212,632</u>
<u>661,704</u>	<u>(85,536)</u>	<u>576,168</u>	<u>606,240</u>
181,008	-	181,008	-
19,890	-	19,890	19,890
<u>(405,419)</u>	<u>-</u>	<u>(405,419)</u>	<u>-</u>
<u>(204,521)</u>	<u>-</u>	<u>(204,521)</u>	<u>19,890</u>
457,183	(85,536)	371,647	626,130
<u>744,825</u>	<u>744,825</u>	<u>744,825</u>	<u>-</u>
<u>\$ 1,202,008</u>	<u>\$ 659,289</u>	<u>\$ 1,116,472</u>	<u>\$ 626,130</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Community preservation surcharges.....	\$ -	\$ 173,363	\$ -	\$ 173,363
Intergovernmental	-	86,682	-	86,682
Investment income.....	-	1,000	-	1,000
TOTAL REVENUES.....	<u>-</u>	<u>261,045</u>	<u>-</u>	<u>261,045</u>
EXPENDITURES				
Current:				
Administrative.....	-	5,000	-	5,000
Acquisitions and projects.....	217,294	220,240	-	437,534
Debt service:				
Principal.....	-	62,500	-	62,500
Interest.....	-	18,086	-	18,086
TOTAL EXPENDITURES.....	<u>217,294</u>	<u>305,826</u>	<u>-</u>	<u>523,120</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	<u>(217,294)</u>	<u>(44,781)</u>	<u>-</u>	<u>(262,075)</u>
NET CHANGE IN FUND BALANCE.....	(217,294)	(44,781)	-	(262,075)
FUND BALANCE AT BEGINNING OF YEAR....	<u>355,692</u>	<u>355,692</u>	<u>355,692</u>	<u>355,692</u>
FUND BALANCE AT END OF YEAR.....	<u>\$ 138,398</u>	<u>\$ 310,911</u>	<u>\$ 355,692</u>	<u>\$ 93,617</u>

See notes to required supplementary information.

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
\$ 172,138	\$ -	\$ 172,138	\$ (1,225)
101,495	-	101,495	14,813
<u>622</u>	<u>-</u>	<u>622</u>	<u>(378)</u>
<u>274,255</u>	<u>-</u>	<u>274,255</u>	<u>13,210</u>
2,430	-	2,430	2,570
161,504	205,145	366,649	70,885
62,500	-	62,500	-
<u>18,086</u>	<u>-</u>	<u>18,086</u>	<u>-</u>
<u>244,520</u>	<u>205,145</u>	<u>449,665</u>	<u>73,455</u>
<u>29,735</u>	<u>(205,145)</u>	<u>(175,410)</u>	<u>86,665</u>
29,735	(205,145)	(175,410)	86,665
<u>355,692</u>	<u>355,692</u>	<u>355,692</u>	<u>-</u>
<u>\$ 385,427</u>	<u>\$ 150,547</u>	<u>\$ 180,282</u>	<u>\$ 86,665</u>

PENSION PLAN SCHEDULES

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

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 278,332,006	\$ 536,115,536	\$ 257,783,530	51.9%	\$ 119,707,156	215.3%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
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
2011	21,084,190	100

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

TOWN SHARE OF SYSTEM ARC

Fiscal Year Ended June 30	ARC	Percentage of ARC Contributed (%)	Town ARC as a Percentage of System ARC (%)
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%
2012	510,778	100	2.4%

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. Reconciliations of budgetary-basis to GAAP-basis results for the general fund and community preservation fund (CPA Fund) for the fiscal year ended June 30, 2012, are presented below:

General Fund

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources/ (Uses)</u>	<u>Fund Balances</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 10,054,277	\$ 9,478,109	\$ (204,521)	\$ 1,116,472
<u>Reclassifications</u>				
Activity of stabilization fund recorded in the general fund for GAAP purposes.....	296	-	-	80,182
<u>Adjustments</u>				
Net change in recording 60-day receipts.....	(42,394)	-	-	15,312
Net change in recording tax refunds payable.....	(65,741)	-	-	(65,741)
To record MTRS on-behalf payments.....	640,589	640,589	-	-
Net change in recording short-term interest accrual.....	-	2,002	-	(32,265)
To record encumbrances and continuing appropriations.....	-	(85,536)	-	85,536
To record transfer of prior years' net water/sewer cash activity balances (\$260,529) reclassified from the general fund to the water/sewer enterprise fund prior to the legal adoption of the water/sewer enterprise fund.....	-	-	(260,529)	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 10,587,027</u>	<u>\$ 10,035,164</u>	<u>\$ (465,050)</u>	<u>\$ 1,199,496</u>

CPA Fund

	<u>Expenditures</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 449,665
<u>Adjustments</u>	
To record encumbrances and continuing appropriations.....	<u>(205,145)</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 244,520</u>

NOTE B - PENSION PLAN

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

Valuation date:	January 1, 2011
Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Level dollar for ERI liability for most units, 4.5% annual increases for ERI liability for other units, increasing amortization for the remaining unfunded liability. Increase in total appropriation not to exceed 8%.
Remaining amortization period:	As of July 1, 2011, schedules as selected by the units for 2002 ERI liability, schedules as selected by units for 2003 ERI liability and 24 years for remaining unfunded liability
Asset valuation method:	Sum of actuarial value at beginning of year and increase in cost value during the year excluding realized appreciation or losses plus 20 percent of market value at end of year (as reported in the Annual Statement) in the excess of that preliminary value, adjusted to be within 20 percent of their market value
<u>Actuarial assumptions:</u>	
Investment rate of return:	8.25%
Projected salary increases:	5.00%
Cost of living adjustments:	3.00% of first \$12,000 of retirement income