

TOWN OF NAHANT, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014



CliftonLarsonAllen

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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 as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized in this report. We previously provided a written communication dated November 14, 2014, on the entity's internal control. This letter does not affect our communication dated November 14, 2014.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, MA

November 14, 2014

TOWN OF NAHANT, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014

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Comments and Recommendations

Availability of Funds for Construction Contracts

Comment

Massachusetts General Laws (MGL) Chapter 44, Section 31C states that no contract for the construction, reconstruction, alteration, remodeling, repair or demolition of any public building or public work costing more than two thousand dollars shall be deemed to have been made until the auditor or accountant has certified thereon that an appropriation in the amount of such contract is available. Furthermore, MGL Chapter 30B, Section 12a states the procurement officer shall not enter into a contract unless funds are available for the first fiscal year at the time of contracting.

During fiscal year 2014, the Town's procurement officer entered into a contract without requesting or receiving a certification that an appropriation was available.

The Town's mitigating controls over procurement identified this deficiency and Town management and governance put the related project on hold. No services on this contract were performed during fiscal year 2014.

Recommendation

We recommend the Town's procurement officer receive certification that an appropriation is available prior to executing contracts costing more than two thousand dollars.

Management's Response

The Town agrees with this recommendation and will have a sign-off certification by the Town Accountant that an appropriation in the amount of the contract is available prior to executing contracts costing more than two thousand dollars.

Procurements for Emergencies

Comment

On occasion, emergencies arise in which the Town must take fast action to procure the services of a contractor to resolve the situation in a timely manner. There are certain emergency scenarios that recur on a more frequent basis than others. Examples include water main breaks, sewage leaks, roadwork repairs and other matters related to infrastructure.

The Town should consider procuring and executing blanket contracts related to these types of recurring services.

Recommendation

We recommend the Town consider the cost/benefit of procuring and executing blanket contracts related to emergency services that recur on a more frequent basis.

Management's Response

The Town agrees with this recommendation and has already taken steps in procuring and executing blanket contracts for emergency services. Blanket contracts for FY15 water and sewer and tree services have already been executed and the Town is in the process of procuring emergency contracts for electrical and plumbing services.

Information Technology

Comment

We identified the following deficiencies related to the Town's use of information technology:

- There are no written policies to address employees' use of information technology
- Some of the Town's software programs do not support proper segregation of duties through technical access rights, such as password requirements. In addition, the password requirements for programs with technical access rights could be strengthened.
- An External Penetration Test and an Internal Vulnerability Assessment have never been performed by an independent third party
- Periodic reviews of network and application user accounts are not performed to ensure only current employees and approved business partners have active user accounts

Recommendation

We recommend the following:

- Implementation of an IT security policy governing end users of information technology. All employees should be required to acknowledge in writing that they understand and will adhere to the policy. The policy should address the following areas:
 - Mobile devices
 - Security awareness
 - Acceptable use of technology
 - Peripheral devices
- For software programs that do not allow for access passwords, implementation of control measures to require a periodic review of user access logs to ensure no unauthorized access to such programs has occurred
- For software programs that do allow for access passwords, implementation of stronger password requirements, as follows:
 - Regular Users:
 - Minimum length of 8 characters
 - Complexity Enabled (Upper case, lower case, alpha numeric, special character)
 - Minimum password age of 1 day; maximum password age of 90 days
 - 12-24 passwords remembered
 - System Administrators:
 - Minimum length of 15 characters
 - Complexity enforced (Upper case, lower case, alpha numeric, special character)
 - Change frequency of 60 days enforced
 - Password history of 24

If stronger and more complex administrator passwords cannot be implemented due to system limitations, then it should be implemented via written policy.

- Hire an independent third party to perform an External Penetration Test and an Internal Vulnerability Assessment to identify potential areas of technical weaknesses to the IT environment
- Implementation of annual (at a minimum) procedures to compare network and application user accounts to a list of current employees to validate only current employees and approved business partners have active user accounts. Documentation must be maintained to provide evidence of these periodic reviews.

Management's Response

Lack of Written Policies - These will be created and given to the employees.

Software segregation - All of the Town's software supports user segregation. All users have separate credentials to the computer network and data is locked down by user and group. No user can see another department or data they do not need. The finance application adds another level of security and has a separate login for each user with access to only the data they need to see.

External penetration testing - Nahant town hall only has 1 firewall with no ports open on it inbound. A penetration test and vulnerability assessment were completed in June, this resulted in outside access being secure and internal upgrades and patches to all workstations and servers.

Network and application user accounts - User dismissal process is to disable the account and delete as soon as a new hire is onsite. Then transfer data to manager and new hire. User accounts are deleted from finance software immediately.

Charles Walde is our IT specialists and is working with Philip Hayes, from CliftonLarsonAllen LLP to be sure we are current on our implementation of our annual procedures.

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

The Town currently keeps all assets over \$1,000 in the fixed asset software, One Squared, and periodically updates this list, as well as compare all assets to the insurance reports. The Town is working with the departments to strengthen internal controls in all areas listed above. The Town Administrator will develop a draft risk assessment program and submit it to the Board of Selectmen the first of the fiscal year.

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 (payroll and vendor cash disbursements, 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

The Town is continuing the designing and implementing a formal financial policies and procedures manual and the Town Administrator will develop a draft set of policies and procedures and submit them to the Board of Selectmen the first of the fiscal year.

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 is planning to implement a complete disaster recovery plan. The Town Administrator has met with the key contacts and has completed a mitigation Plan (2014) and submitted it to MEMA for review.

GASB Statement 68

Comment

Governmental Accounting Standards Board (GASB) Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, 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. Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the Town's financial statements.

The Town's required implementation date of GASB Statement No. 68 is fiscal year 2015. Implementation of this Statement will require the Town to work closely with the Essex County Retirement System and independent audit firm.

One item of particular importance is the timing of the actuarial valuation that will provide much of the information required by the Statement. The valuation must be completed in a timely fashion that correlates to the timing of the Town's fiscal year 2015 audit fieldwork.

Recommendation

We recommend the Town collaborate with the Essex County Retirement System and independent audit firm to plan for the implementation of GASB Statement No. 68.

Management's Response

The Town Treasurer has contacted Essex Regional Retirement System to inform them of GASB Statement No. 68. They have a plan as follows:

Essex Regional Retirement Board chose to authorize actuarial consultant, Stone Consulting, Inc., to conduct a valuation study as of January 1, 2014. This 2014 valuation study will update ERRS' assets and liabilities as of the beginning of this year. However, the 2014 valuation study will also provide per unit costs for our members so that they can use this information to comply with GASB 68 when they are completing their own annual audits.

TOWN OF NAHANT, MASSACHUSETTS
FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

**TOWN OF NAHANT, MASSACHUSETTS
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INDEPENDENT AUDITORS' REPORT

Honorable Board of Selectmen
Town of Nahant, Massachusetts

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Town of Nahant, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 3 through 11), general fund and community preservation fund budgetary comparisons and certain pension and other postemployment benefits information, and the related notes to the required supplementary information (located on pages 59 through 66) 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Nahant, Massachusetts' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Boston, MA
November 14, 2014

**TOWN OF NAHANT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$25,801,141 (net position). Of this amount, \$2,229,493 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased \$320,963
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$845,975, or 7.8% of total general fund expenditures and transfers out.
- The Town's total bonded debt decreased by \$683,810 during the fiscal year; the Town issued no 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 required 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 position** presents information on all of the Town's non-fiduciary assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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.).

**TOWN OF NAHANT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, health and human services, culture and recreation and debt service - interest. Business-type activities include the water/sewer and rubbish operations.

The government-wide financial statements can be found on pages 12-14 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 15-20 of this report.

**TOWN OF NAHANT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, and its rubbish operations, which is considered to be a nonmajor fund.

The basic proprietary fund financial statements can be found on pages 21-23 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 24 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 25-58 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 and other postemployment benefits information, which can be found on pages 59-66 of this report.

**TOWN OF NAHANT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Government-Wide Financial Analysis

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

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$25,801,141 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets.....	\$ 4,250,007	\$ 3,184,452	\$ 1,698,913	\$ 1,720,235	\$ 5,948,920	\$ 4,904,687
Noncurrent assets (excluding capital assets).....	140,533	132,594			140,533	132,594
Capital assets (net).....	<u>23,047,944</u>	<u>23,487,131</u>	<u>7,039,190</u>	<u>7,288,336</u>	<u>30,087,134</u>	<u>30,775,467</u>
Total assets.....	<u>27,438,484</u>	<u>26,804,177</u>	<u>8,738,103</u>	<u>9,008,571</u>	<u>36,176,587</u>	<u>35,812,748</u>
Liabilities						
Current liabilities (excluding debt).....	443,297	296,665	68,696	86,859	511,993	383,524
Noncurrent liabilities (excluding debt).....	1,280,221	981,559	111,812	94,257	1,392,033	1,075,816
Current debt.....	3,121,500	2,849,500	255,910	269,310	3,377,410	3,118,810
Noncurrent debt.....	<u>3,706,000</u>	<u>4,110,500</u>	<u>1,388,010</u>	<u>1,643,920</u>	<u>5,094,010</u>	<u>5,754,420</u>
Total liabilities.....	<u>8,551,018</u>	<u>8,238,224</u>	<u>1,824,428</u>	<u>2,094,346</u>	<u>10,375,446</u>	<u>10,332,570</u>
Net Position						
Net investment in capital assets.....	16,473,115	16,734,302	5,720,460	5,750,983	22,193,575	22,485,285
Restricted.....	1,378,073	977,774	-		1,378,073	977,774
Unrestricted.....	<u>1,036,278</u>	<u>853,877</u>	<u>1,193,215</u>	<u>1,163,242</u>	<u>2,229,493</u>	<u>2,017,119</u>
Total net position.....	<u>\$ 18,887,466</u>	<u>\$ 18,565,953</u>	<u>\$ 6,913,675</u>	<u>\$ 6,914,225</u>	<u>\$ 25,801,141</u>	<u>\$ 25,480,178</u>

The largest portion of the Town's net position (86.0%) 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 position (5.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (8.7% or \$2,229,493) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$1,036,278 may be used to support governmental activities and \$1,193,215 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 position, both for the government as a whole, as well as for its separate governmental and business-type activities.

**TOWN OF NAHANT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Changes in Net Position

For the fiscal year ended June 30, 2014, the Town's total net position increased by \$320,963, compared to an increase of \$1,003,645 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2014	2013	2014	2013	2014	2013
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 1,051,722	\$ 977,341	\$ 2,060,740	\$ 1,905,381	\$ 3,112,462	\$ 2,882,722
Operating grants and contributions.....	906,775	695,776	1,479	1,753	908,254	697,529
Capital grants and contributions.....	176,692	970,440	-	11,581	176,692	982,021
<i>General Revenues:</i>						
Real estate and personal property taxes.....	8,041,639	7,887,561	-	-	8,041,639	7,887,561
Motor vehicle and other excise taxes.....	516,910	509,438	-	-	516,910	509,438
Penalties and interest on taxes.....	28,422	27,379	-	-	28,422	27,379
Payments in lieu of taxes.....	1,559	1,558	-	-	1,559	1,558
Community preservation surcharges.....	181,052	176,693	-	-	181,052	176,693
Grants and contributions not restricted to specific programs.....	1,124,941	1,069,490	-	-	1,124,941	1,069,490
Unrestricted investment income.....	1,263	927	-	-	1,263	927
Total revenues.....	12,030,975	12,316,603	2,062,219	1,918,715	14,093,194	14,235,318
Expenses						
General government.....	1,375,821	1,340,480	-	-	1,375,821	1,340,480
Public safety.....	3,489,196	3,305,658	-	-	3,489,196	3,305,658
Education.....	5,175,273	5,056,550	-	-	5,175,273	5,056,550
Public works.....	834,086	768,384	-	-	834,086	768,384
Health and human services.....	175,621	180,613	-	-	175,621	180,613
Culture and recreation.....	511,191	514,775	-	-	511,191	514,775
Debt service - interest.....	206,902	217,292	-	-	206,902	217,292
Water/Sewer.....	-	-	1,632,082	1,471,935	1,632,082	1,471,935
Rubbish.....	-	-	372,059	375,986	372,059	375,986
Total expenses.....	11,768,090	11,383,752	2,004,141	1,847,921	13,772,231	13,231,673
Change in net position before transfers.....	262,885	932,851	58,078	70,794	320,963	1,003,645
Transfers, net.....	58,628	(135,401)	(58,628)	135,401	-	-
Change in net assets.....	321,513	797,450	(550)	206,195	320,963	1,003,645
Net position - beginning of year.....	18,565,953	17,768,503	6,914,225	6,708,030	25,480,178	24,476,533
Net position - end of year.....	\$ 18,887,466	\$ 18,565,953	\$ 6,913,675	\$ 6,914,225	\$ 25,801,141	\$ 25,480,178

Governmental activities increased the Town's net position by \$321,513. In the prior year, governmental activities increased the Town's net position by \$797,450. The key element of this change relates to a decrease in capital grants (approximately \$793,000) due to a non-recurring grant from fiscal year 2013 for the purchase of a new fire truck.

Business-type activities decreased the Town's net position by \$550. In the prior year, business-type activities increased the Town's net position by \$206,195. The key element of this change is the fiscal year 2014 transfer of \$200,000 to a new water/sewer stabilization fund.

**TOWN OF NAHANT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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 \$705,298, an increase of \$617,377 in comparison with the prior year. Unassigned fund balance totaled (\$1,617,187), resulting from temporary fund deficits in the Coast Guard houses and other capital projects funds. The remainder of fund balance includes the following constraints:

- Nonspendable - \$25,150
- Restricted - \$1,438,429
- Committed - \$739,045
- Assigned - \$119,861

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 \$845,975 while total fund balance was \$1,704,881. 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 7.8% of total general fund expenditures and transfers out, while total fund balance represents 15.6% of that same amount.

The balance of the Town's general fund increased \$337,243 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 \$815,000 (excluding encumbrances and continuing appropriations), approximately \$703,000 of reserves were used to fund the fiscal year 2014 budget.

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 \$204,644 during the current fiscal year. The fund recognized \$179,600 in surcharges, \$176,692 in intergovernmental revenues and \$687 of investment income. Expenditures of \$152,335 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.

**TOWN OF NAHANT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Proprietary Funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water/sewer enterprise fund at the end of the year amounted to \$1,112,160. The water/sewer fund had a decrease in net position for the year of (\$56,116). Unrestricted net position of the rubbish enterprise fund at the end of the year amounted to \$81,055. The rubbish enterprise fund had an increase in net position for the year of \$55,566. 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 \$10,645,376 was decreased by \$38,091 (0.4%) during the fiscal year. The following table summarizes the net decrease:

<u>Purpose of Increase/(Decrease)</u>	<u>Amount</u>	<u>Funding Source</u>
Snow and ice expenses.....	\$ 40,909	Unassigned fund balance
Reduce debt service appropriations.....	<u>(79,000)</u>	Unassigned fund balance
Total decrease.....	<u>\$ (38,091)</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 \$695,000.

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 \$30,087,134 (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 decrease in the investment in capital assets for the current fiscal year totaled \$688,333.

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

- Road paving (\$68,000)
- Water mains improvements (\$63,000)
- Purchase of school computers (\$51,000)

**TOWN OF NAHANT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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>	
	2014	2013	2014	2013	2014	2013
Land.....	\$ 7,669,465	\$ 7,669,465	\$ -	\$ -	\$ 7,669,465	\$ 7,669,465
Works of art.....	110,500	110,500	-	-	110,500	110,500
Land improvements.....	735,276	697,219	-	-	735,276	697,219
Buildings & improvements.....	11,400,835	11,742,286	-	-	11,400,835	11,742,286
Machinery and equipment.....	859,683	863,770	90,516	95,414	950,199	959,184
Library books.....	178,868	183,706	-	-	178,868	183,706
Vehicles.....	873,312	976,581	74,694	70,523	948,006	1,047,104
Infrastructure.....	1,220,005	1,243,604	6,873,980	7,122,399	8,093,985	8,366,003
Total capital assets.....	<u>\$ 23,047,944</u>	<u>\$ 23,487,131</u>	<u>\$ 7,039,190</u>	<u>\$ 7,288,336</u>	<u>\$ 30,087,134</u>	<u>\$ 30,775,467</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 41-43 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$5,754,420, 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>	
	2014	2013	2014	2013	2014	2013
General obligation bonds.....	\$ 4,110,500	\$ 4,525,000	\$ 685,420	\$ 795,230	\$ 4,795,920	\$ 5,320,230
MWRA notes.....	-	-	958,500	1,118,000	958,500	1,118,000
Total bonds and notes.....	<u>\$ 4,110,500</u>	<u>\$ 4,525,000</u>	<u>\$ 1,643,920</u>	<u>\$ 1,913,230</u>	<u>\$ 5,754,420</u>	<u>\$ 6,438,230</u>

The Town's total bonded debt decreased by \$683,810 (10.6%) during the current fiscal year; the Town issued no new debt in the current fiscal year.

Additional information on the Town's long-term debt can be found in Note 9 on pages 47-49 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2015 general fund operating budget was influenced by four major factors: slight increased revenue, union contracts were not yet negotiated at budget time, 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 2.19% increase in state aid (After 3.77% increase in FY14, 2% increase in FY13 and 7% reduction in FY12 on top of 10% decrease from FY 11 and 15% decrease from FY 10), and 7.61% increase in total local receipts, mainly due to rentals and motor vehicle increases. We are planning to rent the military houses all of FY15.

**TOWN OF NAHANT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Approximately 90% of school employees and 75% of municipal employees are covered by collective bargaining agreements. In fiscal year 2015, none of the unions had negotiated contracts at budget time and all employees were budgeted for 1.5% increases. The cherry sheet assessments decreased by 13% for FY15. The police cruiser, fire capital and DPW capital was not funded in FY15 (Decrease of \$75,500 from FY14).

Health insurance increased 8%, Essex Regional Retirement Board assessment increased 10% and we increased the reserve fund by 36%. North Shore Vocational School Assessment was increased by 22%. Swampscott tuition increased 9.7%.

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 \$180,053 (2.27%).

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

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.

TOWN OF NAHANT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 1,991,512	\$ 983,553	\$ 2,975,065
Restricted cash and cash equivalents.....	1,705,674	325,190	2,030,864
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	143,324	-	143,324
Tax and utility liens.....	231,987	13,960	245,947
Motor vehicle and other excise taxes.....	83,809	-	83,809
Community preservation surcharges.....	2,707	-	2,707
Water.....	-	186,701	186,701
Sewer.....	-	176,987	176,987
Trash.....	8,509	12,522	21,031
Parking violations.....	11,000	-	11,000
Departmental and other.....	35,904	-	35,904
Intergovernmental.....	35,581	-	35,581
Total current assets.....	4,250,007	1,698,913	5,948,920
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	140,533	-	140,533
Capital assets not being depreciated.....	7,779,965	-	7,779,965
Capital assets, net of accumulated depreciation.....	15,267,979	7,039,190	22,307,169
Total noncurrent assets.....	23,188,477	7,039,190	30,227,667
Total assets.....	27,438,484	8,738,103	36,176,587
LIABILITIES			
Current liabilities:			
Warrants payable.....	246,556	56,361	302,917
Accrued payroll.....	77,716	9,635	87,351
Other liabilities.....	13,339	-	13,339
Accrued interest.....	79,386	-	79,386
Compensated absences.....	26,300	2,700	29,000
Short-term notes payable.....	2,717,000	-	2,717,000
Long-term bonds and notes payable.....	404,500	255,910	660,410
Total current liabilities.....	3,564,797	324,606	3,889,403
Noncurrent liabilities:			
Compensated absences.....	236,700	24,300	261,000
Net OPEB obligation.....	1,043,521	87,512	1,131,033
Long-term bonds and notes payable.....	3,706,000	1,388,010	5,094,010
Total noncurrent liabilities.....	4,986,221	1,499,822	6,486,043
Total liabilities.....	8,551,018	1,824,428	10,375,446
NET POSITION			
Net investment in capital assets.....	16,473,115	5,720,460	22,193,575
Restricted for:			
Community preservation.....	718,015	-	718,015
Permanent funds:			
Expendable.....	58,369	-	58,369
Nonexpendable.....	25,150	-	25,150
Other specific purposes.....	576,539	-	576,539
Unrestricted.....	1,036,278	1,193,215	2,229,493
Total net position.....	\$ 18,887,466	\$ 6,913,675	\$ 25,801,141

The accompanying notes are an integral part of the financial statements.

TOWN OF NAHANT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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.....	\$ 1,375,821	\$ 519,405	\$ 23,246	\$ -	\$ (833,170)
Public safety.....	3,489,196	90,115	69,086	-	(3,329,995)
Education.....	5,175,273	211,883	693,266	-	(4,270,124)
Public works.....	834,086	148,953	70,159	-	(614,974)
Health and human services.....	175,621	11,587	8,488	-	(155,546)
Culture and recreation.....	511,191	69,779	28,891	176,692	(235,829)
Debt service - interest.....	206,902	-	13,639	-	(193,263)
Total governmental activities.....	<u>11,768,090</u>	<u>1,051,722</u>	<u>906,775</u>	<u>176,692</u>	<u>(9,632,901)</u>
Business-type activities:					
Water/Sewer.....	1,632,082	1,633,318	1,276	-	2,512
Rubbish.....	<u>372,059</u>	<u>427,422</u>	<u>203</u>	-	<u>55,566</u>
Total business-type activities.....	<u>2,004,141</u>	<u>2,060,740</u>	<u>1,479</u>	-	<u>58,078</u>
Total primary government.....	<u>\$ 13,772,231</u>	<u>\$ 3,112,462</u>	<u>\$ 908,254</u>	<u>\$ 176,692</u>	<u>\$ (9,574,823)</u>

TOWN OF NAHANT
STATEMENT OF ACTIVITIES (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position:			
Net (expense)/revenue (from previous page).....	\$ (9,632,901)	\$ 58,078	\$ (9,574,823)
<i>General revenues:</i>			
Real estate and personal property taxes.....	8,041,639	-	8,041,639
Motor vehicle and other excise taxes.....	516,910	-	516,910
Penalties and interest on taxes.....	28,422	-	28,422
Payments in lieu of taxes.....	1,559	-	1,559
Community preservation surcharges.....	181,052	-	181,052
Grants and contributions not restricted to specific programs.....	1,124,941	-	1,124,941
Unrestricted investment income.....	1,263	-	1,263
<i>Transfers, net</i>	58,628	(58,628)	-
Total general revenues and transfers.....	9,954,414	(58,628)	9,895,786
Change in net position.....	321,513	(550)	320,963
Net position - beginning of year.....	18,565,953	6,914,225	25,480,178
Net position - end of year.....	\$ 18,887,466	\$ 6,913,675	\$ 25,801,141

The accompanying notes are an integral part of the financial statements.

TOWN OF NAHANT
GOVERNMENTAL FUNDS - BALANCE SHEET
JUNE 30, 2014

ASSETS	General	Community Preservation	Coast Guard Houses
Cash and cash equivalents.....	\$ 1,991,512	\$ -	\$ -
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	143,324	-	-
Real estate tax deferrals.....	140,533	-	-
Tax and trash liens.....	227,750	4,237	-
Motor vehicle and other excise taxes.....	83,809	-	-
Community preservation surcharges.....	-	2,707	-
Trash.....	8,509	-	-
Parking violations.....	11,000	-	-
Departmental and other.....	35,904	-	-
Intergovernmental.....	8,276	-	-
Restricted assets:			
Cash and cash equivalents.....	-	813,034	-
TOTAL ASSETS.....	\$ 2,650,617	\$ 819,978	\$ -
LIABILITIES:			
Warrants payable.....	\$ 234,908	\$ 1,513	\$ -
Accrued payroll.....	73,802	450	-
Other liabilities.....	13,339	-	-
Accrued short-term interest.....	25,829	-	-
Short-term notes payable.....	-	100,000	1,866,000
TOTAL LIABILITIES.....	347,878	101,963	1,866,000
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue.....	597,858	6,944	-
FUND BALANCES:			
Nonspendable.....	-	-	-
Restricted.....	-	711,071	-
Committed.....	739,045	-	-
Assigned.....	119,861	-	-
Unassigned.....	845,975	-	(1,866,000)
TOTAL FUND BALANCES.....	1,704,881	711,071	(1,866,000)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 2,650,617	\$ 819,978	\$ -

The accompanying notes are an integral part of the financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,991,512
-	143,324
-	140,533
-	231,987
-	83,809
-	2,707
-	8,509
-	11,000
-	35,904
27,305	35,581
<u>892,640</u>	<u>1,705,674</u>
<u>\$ 919,945</u>	<u>\$ 4,390,540</u>
\$ 10,135	\$ 246,556
3,464	77,716
-	13,339
-	25,829
<u>751,000</u>	<u>2,717,000</u>
<u>764,599</u>	<u>3,080,440</u>
<u>-</u>	<u>604,802</u>
25,150	25,150
727,358	1,438,429
-	739,045
-	119,861
<u>(597,162)</u>	<u>(1,617,187)</u>
<u>155,346</u>	<u>705,298</u>
<u>\$ 919,945</u>	<u>\$ 4,390,540</u>

TOWN OF NAHANT
 GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General	Community Preservation	Coast Guard Houses
REVENUES			
Real estate and personal property taxes.....	\$ 7,966,376	\$ -	\$ -
Motor vehicle and other excise taxes.....	538,374	-	-
Tax liens.....	35,947	-	-
Payments in lieu of taxes.....	1,559	-	-
Community preservation surcharges.....	-	179,600	-
Charges for services.....	1,746	-	-
Trash disposal.....	2,136	-	-
Intergovernmental	1,578,056	176,692	-
Penalties and interest on taxes.....	28,422	-	-
Licenses and permits.....	119,956	-	-
Fines and forfeitures.....	43,887	-	-
Departmental and other.....	528,486	-	-
Contributions.....	-	-	-
Investment income.....	1,527	687	-
TOTAL REVENUES.....	10,846,472	356,979	-
EXPENDITURES			
Current:			
General government.....	960,260	71,435	-
Public safety.....	2,378,422	-	-
Education.....	3,339,123	-	-
Public works.....	428,676	-	-
Health and human services.....	65,855	-	-
Culture and recreation.....	254,341	4,650	-
Pension benefits.....	1,276,190	-	-
Employee benefits.....	801,356	-	-
Property and liability insurance.....	205,179	-	-
State and county charges.....	158,554	-	-
Debt service:			
Principal.....	352,000	62,500	-
Interest.....	197,540	13,750	-
TOTAL EXPENDITURES.....	10,417,496	152,335	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	428,976	204,644	-
OTHER FINANCING SOURCES (USES)			
Transfers in.....	379,339	-	-
Premium from issuance of bonds and notes.....	13,639	-	-
Transfers out.....	(484,711)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	(91,733)	-	-
NET CHANGE IN FUND BALANCES.....	337,243	204,644	-
FUND BALANCES AT BEGINNING OF YEAR.....	1,367,638	506,427	(1,866,000)
FUND BALANCES AT END OF YEAR.....	\$ 1,704,881	\$ 711,071	\$ (1,866,000)

The accompanying notes are an integral part of the financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 7,966,376
-	538,374
-	35,947
-	1,559
-	179,600
206,994	208,740
-	2,136
316,616	2,071,364
-	28,422
-	119,956
-	43,887
162,125	690,611
102,265	102,265
<u>189</u>	<u>2,403</u>
<u>788,189</u>	<u>11,991,640</u>
16,905	1,048,600
27,021	2,405,443
476,134	3,815,257
272,665	701,341
17,538	83,393
66,436	325,427
-	1,276,190
-	801,356
-	205,179
-	158,554
-	414,500
-	<u>211,290</u>
<u>876,699</u>	<u>11,446,530</u>
<u>(88,510)</u>	<u>545,110</u>
164,000	543,339
-	13,639
-	<u>(484,711)</u>
<u>164,000</u>	<u>72,267</u>
75,490	617,377
<u>79,856</u>	<u>87,921</u>
<u>\$ 155,346</u>	<u>\$ 705,298</u>

TOWN OF NAHANT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total governmental fund balances (page 16).....	\$	705,298
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		23,047,944
Other assets are not available to pay for current period expenditures and, therefore, are deferred inflows in the governmental funds.....		604,802
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(53,557)
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.....		(4,110,500)
Compensated absences.....		(263,000)
Net OPEB obligation.....		<u>(1,043,521)</u>
Net position of governmental activities (page 12).....	\$	<u><u>18,887,466</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NAHANT
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, 2014

Net change in fund balances - total governmental funds (page 18).....	\$	617,377
<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.....		430,208
Depreciation.....		(845,389)
<p>In the statement of activities, the loss on the disposal of capital assets is reported, whereas in the governmental funds only the proceeds of a sale are reported as financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed.....</p>		
		(24,006)
<p>Revenues in the statement of activities that do not provide current financial resources are deferred inflows 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 inflows.....</p>		
		25,697
<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 position. 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.....		414,500
<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>		
		4,388
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>		
Compensated absences.....		(26,000)
Net OPEB obligation.....		(275,262)
		(275,262)
Changes in net position of governmental activities (page 14).....	\$	321,513

The accompanying notes are an integral part of the financial statements.

TOWN OF NAHANT
 PROPRIETARY FUNDS - STATEMENT OF FUND NET POSITION
 JUNE 30, 2014

	<u>Business-Type Activities Enterprise Funds</u>		
	<u>Water/Sewer</u>	<u>Nonmajor Rubbish</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 882,018	\$ 101,535	\$ 983,553
Restricted cash and cash equivalents.....	325,190	-	325,190
Receivables, net of allowance for uncollectible amounts:			
Water.....	186,701	-	186,701
Sewer.....	176,987	-	176,987
Utility liens.....	11,218	2,742	13,960
Trash.....	-	12,522	12,522
Total current assets.....	<u>1,582,114</u>	<u>116,799</u>	<u>1,698,913</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation.....	<u>7,029,377</u>	<u>9,813</u>	<u>7,039,190</u>
Total assets.....	<u>8,611,491</u>	<u>126,612</u>	<u>8,738,103</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	26,638	29,723	56,361
Accrued payroll.....	8,925	710	9,635
Compensated absences.....	2,700	-	2,700
Long-term bonds and notes payable.....	<u>255,910</u>	<u>-</u>	<u>255,910</u>
Total current liabilities.....	<u>294,173</u>	<u>30,433</u>	<u>324,606</u>
Noncurrent liabilities:			
Compensated absences.....	24,300	-	24,300
Net OPEB obligation.....	82,201	5,311	87,512
Long-term bonds and notes payable.....	<u>1,388,010</u>	<u>-</u>	<u>1,388,010</u>
Total noncurrent liabilities.....	<u>1,494,511</u>	<u>5,311</u>	<u>1,499,822</u>
Total liabilities.....	<u>1,788,684</u>	<u>35,744</u>	<u>1,824,428</u>
FUND NET POSITION			
Net investment in capital assets.....	5,710,647	9,813	5,720,460
Unrestricted.....	<u>1,112,160</u>	<u>81,055</u>	<u>1,193,215</u>
Total net position.....	<u>\$ 6,822,807</u>	<u>\$ 90,868</u>	<u>\$ 6,913,675</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NAHANT
 PROPRIETARY FUNDS - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water/Sewer</u>	<u>Nonmajor Rubbish</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services.....	\$ 1,633,318	\$ 427,422	\$ 2,060,740
OPERATING EXPENSES			
Cost of service and administration.....	600,627	371,175	971,802
MWRA assessment.....	349,196	-	349,196
Lynn assessment.....	234,850	-	234,850
Depreciation.....	283,729	884	284,613
TOTAL OPERATING EXPENSES.....	1,468,402	372,059	1,840,461
OPERATING INCOME.....	164,916	55,363	220,279
NONOPERATING REVENUES (EXPENSES)			
Investment income.....	1,276	203	1,479
Interest expense.....	(36,400)	-	(36,400)
(Loss) on disposal of capital assets.....	(127,280)	-	(127,280)
TOTAL NONOPERATING REVENUES (EXPENSES), NET....	(162,404)	203	(162,201)
INCOME BEFORE TRANSFERS	2,512	55,566	58,078
TRANSFERS			
Transfers in.....	320,711	-	320,711
Transfers out.....	(379,339)	-	(379,339)
TOTAL TRANSFERS.....	(58,628)	-	(58,628)
CHANGE IN FUND NET POSITION.....	(56,116)	55,566	(550)
FUND NET POSITION AT BEGINNING OF YEAR.....	6,878,923	35,302	6,914,225
FUND NET POSITION AT END OF YEAR.....	\$ 6,822,807	\$ 90,868	\$ 6,913,675

The accompanying notes are an integral part of the financial statements.

TOWN OF NAHANT
 PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water/Sewer	Nonmajor Rubbish	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 1,588,468	\$ 424,295	\$ 2,012,763
Payments to vendors.....	(862,232)	(337,007)	(1,199,239)
Payments to employees.....	(315,270)	(41,947)	(357,217)
NET CASH FROM OPERATING ACTIVITIES.....	<u>410,966</u>	<u>45,341</u>	<u>456,307</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in.....	320,711	-	320,711
Transfers out.....	(379,339)	-	(379,339)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>(58,628)</u>	<u>-</u>	<u>(58,628)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets.....	(162,747)	-	(162,747)
Principal payments on bonds and notes.....	(269,310)	-	(269,310)
Interest expense.....	(36,400)	-	(36,400)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(468,457)</u>	<u>-</u>	<u>(468,457)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income.....	1,276	203	1,479
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(114,843)	45,544	(69,299)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$375,877 reported as restricted in the water/sewer enterprise fund).....	<u>1,322,051</u>	<u>55,991</u>	<u>1,378,042</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$325,190 reported as restricted in the water/sewer enterprise fund).....	<u>\$ 1,207,208</u>	<u>\$ 101,535</u>	<u>\$ 1,308,743</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income.....	\$ 164,916	\$ 55,363	\$ 220,279
Adjustments to reconcile operating income to net cash from operating activities:			
Adjustments not requiring current cash flows:			
Depreciation.....	283,729	884	284,613
Net OPEB obligation.....	20,216	2,739	22,955
Adjustments requiring current cash flows:			
Changes in assets and liabilities:			
Utility liens.....	(6,140)	(2,742)	(8,882)
User charges.....	(38,710)	(385)	(39,095)
Warrants payable.....	(9,380)	(10,793)	(20,173)
Accrued payroll.....	2,335	275	2,610
Compensated absences.....	(6,000)	-	(6,000)
Total adjustments.....	<u>246,050</u>	<u>(10,022)</u>	<u>236,028</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 410,966</u>	<u>\$ 45,341</u>	<u>\$ 456,307</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF NAHANT
FIDUCIARY FUNDS - STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

ASSETS	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ 43,860
LIABILITIES	
Accrued payroll.....	30
Liabilities due depositors.....	<u>43,830</u>
 Total liabilities.....	 \$ <u>43,860</u>

The accompanying notes are an integral part of the financial statements.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2014 Assessment</u>
North Shore Regional Vocational School District.....	To provide vocational education services	30 Log Bridge Road Middleton, MA 01949	\$ 89,058
Essex Agricultural and Technical School District.....	To provide vocational education services	562 Maple Street Hathorne, MA 01923	\$ 18,738

TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

Joint Venture (Continued)

The Town is indirectly liable for both the North Shore Regional Vocational School District's and the Essex Agricultural and Technical School District's (Districts) 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 Treasurers of the Districts at the address identified above.

C. Implementation of New Accounting Principles

For the year ended June 30, 2014, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The implementation of GASB Statement No. 65 introduced deferred inflows and outflows of resources. These separate financial statement elements represent acquisitions and consumptions of net position/fund balance that applies to a future period(s).

The implementation of GASB Statement No.'s 66 and 70 had no reporting impact for the Town.

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (statement of net position 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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

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

Government-Wide 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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)
Fund Financial Statements (Continued)

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.

The following nonmajor proprietary fund is reported:

The *rubbish enterprise fund* is used to account for trash disposal activities.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)
Fund Financial Statements (Continued)

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.

F. Cash and Cash Equivalents

Government-Wide and Fund Financial Statements

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

G. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on November 1 and May 1 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.

TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable (Continued)

Government-Wide and Fund Financial Statements (Continued)

Community Preservation Surcharges

Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on November 1 and May 1 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 Charges and Liens (Utility)

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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Allowance for Uncollectible Amounts

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

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

As of June 30, 2014, 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.

I. Inventories

Government-Wide and Fund Financial Statements

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

J. Restricted Assets

Government-Wide and Fund Financial Statements

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

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

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

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

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

Capital Asset Type	Estimated Useful Life (in years)
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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Interfund Transfers

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

Government-Wide Financial Statements

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

O. Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

The Town does not have items that qualify for reporting in this category.

P. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Deferred Inflows of Resources (Continued)

The Town has one item that qualifies for reporting in this category. It is as follows:

Unavailable revenue is reported in the governmental funds balance sheet. Unavailable revenue 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.

Q. Net Position and Fund Balances

Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net Position)

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

Net position has 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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Position and Fund Balances (Continued)

Governmental Funds Financial Statements (Fund Balances) (Continued)

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.

R. 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 position. 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.

S. 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 and sewer enterprise fund is retained in the fund. Investment income from the rubbish enterprise fund is also retained in the fund.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. 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.

U. Postretirement 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.

V. 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.

W. 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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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 2014 approved budget for the general fund authorized \$10,645,376 in appropriations. During fiscal year 2014, reductions in appropriations totaling \$38,091 for the general fund were authorized. The original fiscal year 2014 approved budget for the CPA fund authorized \$321,650 in appropriations. No additional appropriations were authorized during the year.

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 schedules 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, 2014, the following fund deficits exist:

Fund	Amount	Funding Source
Coast Guard houses (major fund).....	\$ 1,866,000	Issuance of long-term debt
Road construction.....	222,151	Issuance of long-term debt
Bear Pond.....	175,000	Issuance of long-term debt
Johnson school computers.....	58,500	Issuance of long-term debt
Fire truck.....	54,000	Issuance of long-term debt
Utility tractor.....	45,000	Issuance of long-term debt
Compost site.....	25,074	Issuance of long-term debt
Short beach dunes.....	17,437	Issuance of long-term debt

TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, \$2,642,042 of the Town's bank balance of \$4,857,666 was uninsured and uncollateralized and exposed to custodial credit risk.

Investments Summary

The Town's investment at June 30, 2014 consisted of \$325,190 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, 2014, 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 a 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, 2014, the Town was not exposed to custodial credit risk.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2014, the Town's investment in MMDT did not have a credit quality rating.

NOTE 4 ACCOUNTS RECEIVABLE

At June 30, 2014, 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:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 143,324	\$ -	\$ 143,324
Real estate tax deferrals.....	140,533	-	140,533
Tax and trash liens.....	231,987	-	231,987
Motor vehicle and other excise taxes.....	83,809	-	83,809
Community preservation surcharges.....	2,707	-	2,707
Trash.....	8,509	-	8,509
Parking violations.....	123,232	(112,232)	11,000
Departmental and other.....	35,904	-	35,904
Intergovernmental.....	35,581	-	35,581
	<u>\$ 805,586</u>	<u>\$ (112,232)</u>	<u>\$ 693,354</u>

At June 30, 2014, receivables for the enterprise funds, including the applicable allowances for uncollectible amounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Water.....	\$ 186,701	\$ -	\$ 186,701
Sewer.....	176,987	-	176,987
Trash.....	12,522	-	12,522
Utility liens.....	13,960	-	13,960
	<u>\$ 390,170</u>	<u>\$ -</u>	<u>\$ 390,170</u>

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 7,669,465	\$ -	-	\$ 7,669,465
Works of art.....	110,500	-	-	110,500
Total capital assets not being depreciated.....	<u>7,779,965</u>	<u>-</u>	<u>-</u>	<u>7,779,965</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,075,267	74,941	-	1,150,208
Buildings and improvements.....	16,849,517	61,279	-	16,910,796
Machinery and equipment.....	2,345,409	144,937	(159,708)	2,330,638
Library books.....	603,544	31,353	-	634,897
Vehicles.....	1,788,319	-	(173,689)	1,614,630
Infrastructure.....	3,023,998	117,698	-	3,141,696
Total capital assets being depreciated.....	<u>25,686,054</u>	<u>430,208</u>	<u>(333,397)</u>	<u>25,782,865</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(378,048)	(36,884)	-	(414,932)
Buildings and improvements.....	(5,107,231)	(402,730)	-	(5,509,961)
Machinery and equipment.....	(1,481,639)	(125,018)	135,702	(1,470,955)
Library books.....	(419,838)	(36,191)	-	(456,029)
Vehicles.....	(811,738)	(103,269)	173,689	(741,318)
Infrastructure.....	(1,780,394)	(141,297)	-	(1,921,691)
Total accumulated depreciation.....	<u>(9,978,888)</u>	<u>(845,389)</u>	<u>309,391</u>	<u>(10,514,886)</u>
Total capital assets being depreciated, net.....	<u>15,707,166</u>	<u>(415,181)</u>	<u>(24,006)</u>	<u>15,267,979</u>
Total governmental activities capital assets, net.....	<u>\$ 23,487,131</u>	<u>\$ (415,181)</u>	<u>(24,006)</u>	<u>\$ 23,047,944</u>

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Water/Sewer Enterprise Fund:				
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ 130,226	\$ 5,960	(12,630)	\$ 123,556
Vehicles.....	116,352	30,490	-	146,842
Infrastructure.....	11,287,997	126,297	(224,979)	11,189,315
Total capital assets being depreciated.....	11,534,575	162,747	(237,609)	11,459,713
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(45,509)	(8,711)	11,367	(42,853)
Vehicles.....	(45,829)	(26,319)	-	(72,148)
Infrastructure.....	(4,165,598)	(248,699)	98,962	(4,315,335)
Total accumulated depreciation.....	(4,256,936)	(283,729)	110,329	(4,430,336)
Total water/sewer enterprise capital assets, net.....	\$ 7,277,639	\$ (120,982)	(127,280)	\$ 7,029,377
	Beginning Balance	Increases	Decreases	Ending Balance
Rubbish Enterprise Fund:				
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ 11,581	\$ -	-	\$ 11,581
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(884)	(884)	-	(1,768)
Total rubbish nonmajor enterprise capital assets, net.....	10,697	(884)	-	9,813
Total business-type activities capital assets, net.....	\$ 7,288,336	\$ (121,866)	(127,280)	\$ 7,039,190

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities:

General government.....	\$	86,017
Public safety.....		158,612
Education.....		239,483
Public works.....		191,663
Culture and recreation.....		<u>169,614</u>

Total depreciation expense - governmental activities..... \$ 845,389

Business-Type Activities:

Water/Sewer.....	\$	283,729
Rubbish.....		<u>884</u>

Total depreciation expense - business-type activities..... \$ 284,613

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2014 are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Nonmajor Governmental Funds	Water/Sewer Enterprise Fund	Total
General Fund.....	\$ -	\$ 164,000	\$ 320,711	\$ 484,711 (1)
Water/Sewer Enterprise Fund.....	379,339	-	-	379,339 (2)
	\$ 379,339	\$ 164,000	\$ 320,711	\$ 864,050

- (1) Represents budgeted transfers from the general fund to the water/sewer enterprise fund to pay debt service (\$320,711), and to the street and sidewalk paving, fire apparatus, Bear Pond drainage, Short Beach fence, and fire vehicle capital project funds to pay down short-term notes (\$164,000).
- (2) Represents transfer of indirect costs to the general fund (\$179,339); as well as the appropriation of water/sewer enterprise fund reserves to the stabilization fund (\$200,000).

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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 SHORT-TERM FINANCING (CONTINUED)

Details related to the short-term debt activity for the fiscal year ended June 30, 2014 is as follows:

Notes Payable – Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2013	Increases	Decreases	Balance at 6/30/2014
BAN	Street and sidewalk paving.....	07/06/12	07/18/13	0.60%	\$ 65,000	\$ -	\$ (65,000)	\$ -
BAN	Fire department equipment.....	07/06/12	07/18/13	0.60%	29,000	-	(29,000)	-
BAN	Road and sidewalk paving.....	07/06/12	07/18/13	0.60%	90,000	-	(90,000)	-
BAN	Bear pond drainage.....	07/06/12	07/18/13	0.60%	225,000	-	(225,000)	-
BAN	Street and sidewalk paving.....	07/06/12	07/18/13	0.60%	100,000	-	(100,000)	-
BAN	Fire department equipment.....	07/06/12	07/18/13	0.60%	60,000	-	(60,000)	-
BAN	Coast Guard houses.....	10/12/12	07/18/13	1.00%	1,866,000	-	(1,866,000)	-
BAN	Land acquisition.....	07/18/13	07/18/14	1.00%	-	1,866,000	-	1,866,000
BAN	Road and sidewalk paving.....	07/18/13	07/18/14	1.00%	-	80,000	-	80,000
BAN	Bear pond drainage.....	07/18/13	07/18/14	1.00%	-	175,000	-	175,000
BAN	Street and sidewalk paving.....	07/18/13	07/18/14	1.00%	-	100,000	-	100,000
BAN	Fire department equipment.....	07/18/13	07/18/14	1.00%	-	54,000	-	54,000
BAN	Paving.....	07/18/13	07/18/14	1.00%	-	100,000	-	100,000
BAN	Utility tractor.....	07/18/13	07/18/14	1.00%	-	45,000	-	45,000
BAN	School computers.....	07/18/13	07/18/14	1.00%	-	58,500	-	58,500
BAN	Seawall - CPA.....	07/18/13	07/18/14	1.00%	-	100,000	-	100,000
BAN	Beach dune restoration.....	07/18/13	07/18/14	1.00%	-	55,000	-	55,000
BAN	Short beach.....	07/18/13	07/18/14	1.00%	-	3,500	-	3,500
BAN	Compost.....	07/18/13	07/18/14	1.00%	-	80,000	-	80,000
BAN	Revenue Anticipation Notes	07/18/13	05/16/14	0.50%	-	1,300,000	(1,300,000)	-
Total.....					\$ 2,435,000	\$ 4,017,000	\$ (3,735,000)	\$ 2,717,000

Subsequent Events

On July 18, 2014, the Town paid down \$10,000 of the street and sidewalk paving BAN and renewed the BAN in the amount of \$90,000 at an interest rate of 1.0% with a maturity date of July 18, 2015.

On July 18, 2014, the Town paid down \$4,000 of the fire department equipment BAN and renewed the BAN in the amount of \$50,000 at an interest rate of 1.0% with a maturity date of July 18, 2015.

On July 18, 2014, the Town paid down \$40,000 of the road and sidewalk BAN and renewed the BAN in the amount of \$40,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town paid down \$115,000 of the Bear Pond drainage BAN and renewed the BAN in the amount of \$60,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town renewed the paving BAN in the amount of \$100,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 SHORT-TERM FINANCING (CONTINUED)

Notes Payable – Governmental Funds (Continued)

Subsequent Events (Continued)

On July 18, 2014, the Town renewed the \$1,866,000 Coast Guard houses BAN in the amount of \$1,866,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town paid down \$18,000 of the utility tractor BAN and renewed the BAN in the amount of \$27,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town paid down \$24,000 of the new school computers BAN and renewed the BAN in the amount of \$34,500 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town renewed the new wharf seawalls BAN in the amount of \$100,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town paid down \$20,000 the Short Beach dunes restoration BAN and renewed the BAN in the amount of \$35,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town paid down the Beach basketball courts BAN in the amount of \$3,500 outstanding at June 30, 2014.

On July 18, 2014, the Town paid down \$48,000 of the compost area BAN and renewed the BAN in the amount of \$32,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town issued a new road and sidewalk paving BAN in the amount of \$100,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town issued a new fire dispatch network update BAN in the amount of \$57,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town issued a new Compost Area BAN in the amount of \$80,000 at an interest rate of 1.00% with a maturity date of July 18, 2015.

On July 18, 2014, the Town issued a new RAN in the amount of \$1,300,000 at an interest rate of 1.00% and maturity date of May 14, 2015.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 4,525,000	\$ -	\$ (414,500)	\$ 4,110,500	\$ 404,500
Net OPEB obligation.....	768,259	454,920	(179,658)	1,043,521	-
Compensated absences.....	237,000	26,000	-	263,000	26,300
Total.....	\$ 5,530,259	\$ 480,920	\$ (594,158)	\$ 5,417,021	\$ 430,800
Business-type Activities:					
Bonds and notes payable.....	\$ 1,913,230	\$ -	\$ (269,310)	\$ 1,643,920	\$ 255,910
Net OPEB obligation.....	64,557	37,938	(14,983)	87,512	-
Compensated absences.....	33,000	-	(6,000)	27,000	2,700
Total.....	\$ 2,010,787	\$ 37,938	\$ (290,293)	\$ 1,758,432	\$ 258,610

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, rubbish enterprise fund and general fund subsidies.

NOTE 9 LONG-TERM DEBT

Details related to the outstanding indebtedness at June 30, 2014 and the debt service requirements are as follows:

Bonds and Notes Payable – Governmental Funds

Date of Issue	Maturity Date	Original Issue	Project	Interest Rate	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
9/1/2006	9/1/2025	5,693,580	School remodeling.....	3.75% - 5.00%	\$ 3,890,000	\$ -	\$ (300,000)	\$ 3,590,000
11/1/2008	11/1/2018	168,000	Johnson school roof.....	3.375% - 4.25%	110,000	-	(14,500)	95,500
11/1/2008	11/1/2018	625,000	Building reconstruction.....	3.375% - 4.25%	375,000	-	(62,500)	312,500
11/1/2008	11/1/2018	125,000	School road/traffic.....	3.375% - 4.25%	75,000	-	(12,500)	62,500
11/1/2008	11/1/2018	100,000	Remodeling.....	3.375% - 4.25%	60,000	-	(10,000)	50,000
11/1/2008	11/1/2013	75,000	Departmental equipment....	3.375% - 3.50%	15,000	-	(15,000)	-
Total governmental funds....					\$ 4,525,000	\$ -	\$ (414,500)	\$ 4,110,500

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds and Notes Payable – Governmental Funds (Continued)

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
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.....	<u>290,000</u>	<u>5,800</u>	<u>295,800</u>
Total.....	<u>\$ 4,110,500</u>	<u>\$ 924,474</u>	<u>\$ 5,034,974</u>

Bonds and Notes Payable – Water/Sewer Enterprise Fund

Date of Issue	Maturity Date	Original Issue	Project	Interest Rate	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
11/15/1982	11/15/2022	1,300,000	Sewer project.....	5.00%	\$ 325,000	\$ -	\$ (32,500)	\$ 292,500
6/28/1985	6/27/2025	290,100	Sewer project.....	5.00%	82,900	-	(7,400)	75,500
2/7/1986	2/7/2026	376,400	Sewer project.....	5.00%	122,330	-	(9,410)	112,920
5/20/2004	5/15/2014	134,000	Water note (MWRA).....	0.00%	13,400	-	(13,400)	-
5/18/2006	5/15/2016	268,000	Water note (MWRA).....	0.00%	80,400	-	(26,800)	53,600
5/22/2008	5/15/2018	134,000	Water note (MWRA).....	0.00%	67,000	-	(13,400)	53,600
9/1/2006	9/1/2025	150,000	Sewer project.....	3.75% - 5.00%	60,000	-	(15,000)	45,000
9/1/2006	9/1/2025	300,000	Sewer project.....	3.75% - 5.00%	120,000	-	(30,000)	90,000
11/1/2008	11/1/2018	72,000	Water projects.....	3.75% - 4.25%	40,000	-	(8,000)	32,000
11/1/2008	11/1/2018	75,000	Sewer project.....	3.375% - 4.25%	45,000	-	(7,500)	37,500
5/19/2011	5/15/2021	134,000	Water note (MWRA).....	0.00%	107,200	-	(13,400)	93,800
8/15/2011	8/15/2021	750,000	Water note (MWRA).....	0.00%	675,000	-	(75,000)	600,000
6/17/2013	5/15/2023	175,000	Water note (MWRA).....	0.00%	<u>175,000</u>	-	<u>(17,500)</u>	<u>157,500</u>
Total water/sewer enterprise fund.....					<u>\$ 1,913,230</u>	<u>\$ -</u>	<u>\$ (269,310)</u>	<u>\$ 1,643,920</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. The financial assistance is in the form of interest free loans that are payable in ten equal installments. At June 30, 2014, the outstanding principal of MWRA loans totaled \$958,500.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds and Notes Payable – Water/Sewer Enterprise Fund (Continued)

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>
2015.....	\$ 255,910	\$ 31,956	\$ 287,866
2016.....	255,910	26,753	282,663
2017.....	229,110	21,530	250,640
2018.....	184,110	17,298	201,408
2019.....	162,710	14,344	177,054
2020.....	155,210	11,720	166,930
2021.....	155,210	9,255	164,465
2022.....	141,810	6,788	148,598
2023.....	66,810	4,323	71,133
2024.....	16,810	1,858	18,668
2025.....	10,910	1,018	11,928
2026.....	9,410	470	9,880
Total.....	<u>\$ 1,643,920</u>	<u>\$ 147,313</u>	<u>\$ 1,791,233</u>

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2014, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Coast Guard houses.....	\$ 1,866,000 *
Bear pond drainage.....	175,000 *
Street and sidewalk paving.....	100,000 *
Street and sidewalk paving.....	100,000 *
Street and sidewalk paving.....	100,000 **
Wharf sea walls.....	100,000 *
Road and sidewalk paving.....	80,000 *
Compost	80,000 **
Compost.....	80,000 *
School computers.....	58,500 *
Fire dispatch.....	57,000 **
Short Beach dunes.....	55,000 *
Fire department equipment.....	54,000 *
Utility tractor.....	45,000 *
Short Beach basketball courts.....	3,500 *
Total.....	<u>\$ 2,954,000</u>

* A BAN is outstanding for this amount as of June 30, 2014

**A BAN was issued for this amount subsequent to June 30, 2014

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 OTHER POSTEMPLOYMENT 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 June 30, 2012, the latest actuarial valuation, is as follows:

Active employees.....	52
Retired employees, beneficiaries and dependents.....	<u>41</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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 No. 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:

	Amount
Annual required contribution.....	\$ 503,404
Interest on net OPEB obligation.....	24,984
Adjustment to annual required contribution.....	(35,530)
Annual OPEB cost.....	492,858
Contributions made.....	(194,641)
Increase in net OPEB obligation.....	298,217
Net OPEB obligation at beginning of year.....	832,816
Net OPEB obligation at end of year.....	\$ 1,131,033

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2012.....	402,002	55.7%	556,484
June 30, 2013.....	486,000	43.1%	832,816
June 30, 2014.....	492,858	39.5%	1,131,033

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress

The funded status of the Plan at June 30, 2012, the most recent actuarial valuation, was as follows:

Dollar Amounts in Thousands

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial 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)
06/30/12	\$ -	\$ 6,140,917	\$ 6,140,917	-	\$ 2,686,377	229%

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. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Methods and Assumptions (Continued)

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 – 3.0% Year 2 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

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Allocation of AOPEBC

AOPEBC costs were allocated to the Town's functions as follows:

Governmental Activities:	
General government.....	\$ 62,432
Public safety.....	206,511
Education.....	151,157
Public works.....	16,232
Health and human services.....	3,465
Culture and recreation.....	<u>15,123</u>
Total AOPEBC - governmental activities.....	<u>454,920</u>
Business-Type Activities:	
Water/Sewer.....	33,411
Rubbish.....	<u>4,527</u>
Total AOPEBC - business-type activities.....	<u>37,938</u>
Total AOPEBC.....	<u><u>\$ 492,858</u></u>

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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.....	-	711,071	-	-	711,071
Revolving funds.....	-	-	-	125,518	125,518
Town state grants.....	-	-	-	67,637	67,637
Town federal grants.....	-	-	-	71,553	71,553
Wharf.....	-	-	-	104,610	104,610
Capital.....	-	-	-	92,449	92,449
General government.....	-	-	-	16,670	16,670
Education.....	-	-	-	17,668	17,668
Public works.....	-	-	-	5,938	5,938
Culture and recreation.....	-	-	-	34,954	34,954
Other.....	-	-	-	190,361	190,361
Sub-total - Restricted.....	-	711,071	-	727,358	1,438,429
Committed:					
Subsequent year's expenditures.....	538,981	-	-	-	538,981
Water/Sewer Stabilization.....	200,063	-	-	-	200,063
OPEB Stabilization.....	1	-	-	-	1
Sub-total - Committed.....	739,045	-	-	-	739,045
Assigned:					
Encumbrances - general government.....	9,000	-	-	-	9,000
Encumbrances - public works.....	21,183	-	-	-	21,183
Encumbrances - culture and recreation....	3,475	-	-	-	3,475
Encumbrances - employee benefits.....	1,628	-	-	-	1,628
Encumbrances - debt service.....	84,575	-	-	-	84,575
Sub-total - Assigned.....	119,861	-	-	-	119,861
Unassigned.....	845,975	-	(1,866,000)	(597,162)	(1,617,187)
Total fund balances.....	\$ 1,704,881	\$ 711,071	\$ (1,866,000)	\$ 155,346	\$ 705,298

NOTE 12 STABILIZATION FUNDS

The Town maintains general, water/sewer and OPEB stabilization funds established under MGL Chapter 40, Section 5B. Appropriations in and out of the stabilization funds require two-thirds vote of Town meeting. Investment income is retained by the funds.

The balance of the general, water/sewer and OPEB stabilization funds at June 30, 2014 total \$80,583, \$200,063 and \$1, respectively and are reported in the general fund as unassigned (\$80,583) and committed (\$200,064) fund balance.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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 1 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 2014, the Town received approximately \$94,000 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>
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.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 15 PENSION PLAN (CONTINUED)

Plan Description (Continued)

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, 2014, 2013, and 2012 were \$565,154, \$535,206, and \$510,778, 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 \$722,126 for the fiscal year ended June 30, 2014 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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2014.

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 17 CONTINGENCIES (CONTINUED)

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. 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 Authority 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.
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented during fiscal year 2015. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will require the Town, in the transition year of Statement No. 68, to recognize contributions to defined benefit pension plans between the measurement date of the reported net pension liability and the end of the government's reporting period as a deferred outflow of resources.

These pronouncements will be implemented by their respective implementation dates.

TOWN OF NAHANT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 7,930,123	\$ -	\$ 7,930,123
Motor vehicle and other excise taxes.....	-	441,781	-	441,781
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	1,545	-	1,545
Charges for services.....	-	7,039	-	7,039
Trash disposal.....	-	-	-	-
Intergovernmental	-	843,793	-	843,793
Penalties and interest on taxes.....	-	27,375	-	27,375
Licenses and permits.....	-	64,603	-	64,603
Fines and forfeitures.....	-	39,380	-	39,380
Departmental and other.....	-	447,000	-	447,000
Investment income.....	-	900	-	900
TOTAL REVENUES.....	-	9,803,539	-	9,803,539
EXPENDITURES				
Current:				
General government.....	-	1,090,242	(35,099)	1,055,143
Public safety.....	-	2,391,332	30,598	2,421,930
Education.....	-	3,376,258	-	3,376,258
Public works.....	-	418,665	70,823	489,488
Health and human services.....	-	76,725	-	76,725
Culture and recreation.....	-	272,649	-	272,649
Pension benefits.....	-	580,154	(15,000)	565,154
Employee benefits.....	-	969,728	(30,045)	939,683
Property and liability insurance.....	-	191,926	19,632	211,558
State and county charges.....	-	167,403	-	167,403
Debt service:				
Principal.....	79,000	384,400	(79,000)	384,400
Interest.....	-	241,182	-	241,182
TOTAL EXPENDITURES.....	79,000	10,160,664	(38,091)	10,201,573
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(79,000)	(357,125)	38,091	(398,034)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	179,339	-	179,339
Premium from issuance of bonds and notes.....	-	-	-	-
Transfers out.....	-	(484,712)	-	(484,712)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(305,373)	-	(305,373)
NET CHANGE IN FUND BALANCE.....	(79,000)	(662,498)	38,091	(703,407)
FUND BALANCE AT BEGINNING OF YEAR.....	1,285,295	1,285,295	1,285,295	1,285,295
FUND BALANCE AT END OF YEAR.....	\$ 1,206,295	\$ 622,797	\$ 1,323,386	\$ 581,888

See notes to required supplementary information.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 7,932,659	\$ -	\$ 7,932,659	\$ 2,536
538,376	-	538,376	96,595
35,947	-	35,947	35,947
1,559	-	1,559	14
1,746	-	1,746	(5,293)
2,136	-	2,136	2,136
855,930	-	855,930	12,137
28,421	-	28,421	1,046
119,957	-	119,957	55,354
43,887	-	43,887	4,507
528,488	-	528,488	81,488
1,263	-	1,263	363
<u>10,090,369</u>	<u>-</u>	<u>10,090,369</u>	<u>286,830</u>
960,259	9,000	969,259	85,884
2,378,420	-	2,378,420	43,510
3,339,120	-	3,339,120	37,138
428,678	21,183	449,861	39,627
65,855	-	65,855	10,870
254,341	3,475	257,816	14,833
554,064	-	554,064	11,090
801,355	1,628	802,983	136,700
205,179	-	205,179	6,379
158,554	-	158,554	8,849
352,000	32,400	384,400	-
189,007	52,175	241,182	-
<u>9,686,832</u>	<u>119,861</u>	<u>9,806,693</u>	<u>394,880</u>
403,537	(119,861)	283,676	681,710
179,339	-	179,339	-
13,639	-	13,639	13,639
(484,712)	-	(484,712)	-
<u>(291,734)</u>	<u>-</u>	<u>(291,734)</u>	<u>13,639</u>
111,803	(119,861)	(8,058)	695,349
<u>1,285,295</u>	<u>-</u>	<u>1,285,295</u>	<u>-</u>
<u>\$ 1,397,098</u>	<u>\$ (119,861)</u>	<u>\$ 1,277,237</u>	<u>\$ 695,349</u>

TOWN OF NAHANT
COMMUNITY PRESERVATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Community preservation surcharges.....	\$ -	\$ 174,360	\$ -	174,360
Intergovernmental	-	87,180	-	87,180
Investment income.....	-	1,000	-	1,000
TOTAL REVENUES.....	-	262,540	-	262,540
EXPENDITURES				
Current:				
Administrative.....	-	5,000	-	5,000
Acquisitions and projects.....	205,145	215,000	-	420,145
Debt service:				
Principal.....	-	62,500	-	62,500
Interest.....	-	39,150	-	39,150
TOTAL EXPENDITURES.....	205,145	321,650	-	526,795
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(205,145)	(59,110)	-	(264,255)
FUND BALANCE AT BEGINNING OF YEAR.....	506,427	506,427	506,427	506,427
FUND BALANCE AT END OF YEAR.....	\$ 301,282	\$ 447,317	\$ 506,427	\$ 242,172

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>
\$ 179,600	\$ -	\$ 179,600	\$ 5,240
176,692	-	176,692	89,512
<u>687</u>	<u>-</u>	<u>687</u>	<u>(313)</u>
<u>356,979</u>	<u>-</u>	<u>356,979</u>	<u>94,439</u>
4,336	-	4,336	664
71,750	302,165	373,915	46,230
62,500	-	62,500	-
<u>13,750</u>	<u>-</u>	<u>13,750</u>	<u>25,400</u>
<u>152,336</u>	<u>302,165</u>	<u>454,501</u>	<u>72,294</u>
<u>204,643</u>	<u>(302,165)</u>	<u>(97,522)</u>	<u>166,733</u>
<u>506,427</u>	<u>-</u>	<u>506,427</u>	<u>-</u>
<u>\$ 711,070</u>	<u>\$ (302,165)</u>	<u>\$ 408,905</u>	<u>\$ 166,733</u>

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**TOWN OF NAHANT, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION**

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)
01/01/13	\$ 314,565,925	\$ 619,339,080	\$ 304,773,155	50.8%	\$ 119,292,287	255.5%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2008	16,995,636	100
2009	18,173,867	100
2010	19,566,952	100
2011	21,084,190	100
2012	22,770,925	100
2013	24,592,599	100

**TOWN OF NAHANT, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION**

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 (%)
2009	383,675	100	2.3%
2010	423,691	100	2.3%
2011	446,854	100	2.3%
2012	510,778	100	2.4%
2013	535,206	100	2.4%
2014	565,154	100	2.3%

OTHER POSTEMPLOYMENT BENEFITS SCHEDULES

The following schedules provide information related to the Town's other postemployment benefits plan:

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial 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)
06/30/12	\$ -	\$ 6,140,917	\$ 6,140,917	-	\$ 2,686,377	229%
07/01/09	-	4,586,481	4,586,481	-	2,427,894	189%

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

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, 2014 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.....	\$ 10,090,369	\$ 9,806,693	\$ (291,734)	\$ 1,277,237
<u>Reclassifications</u>				
Activity of stabilization funds recorded in the general fund for GAAP purposes.....	262	-	200,001	280,646
<u>Adjustments</u>				
Net change in recording 60-day receipts.....	33,715	-	-	52,971
To record MTRS on-behalf payments.....	722,126	722,126	-	-
Net change in recording short-term interest accrual.....	-	8,538	-	(25,834)
To record encumbrances and continuing appropriations.....	-	(119,861)	-	119,861
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 10,846,472</u>	<u>\$ 10,417,496</u>	<u>\$ (91,733)</u>	<u>\$ 1,704,881</u>

CPA Fund

	<u>Expenditures</u>	<u>Fund Balances</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 454,501	\$ 408,905
<u>Adjustments</u>		
To record encumbrances and continuing appropriations.....	(302,166)	302,166
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 152,335</u>	<u>\$ 711,071</u>

**TOWN OF NAHANT, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

NOTE B – PENSION PLAN

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

Valuation Date:	January 1, 2013
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Approximate level percent of payroll
Remaining Amortization Period:	21 years for the fresh state base
Asset Valuation Method:	A five-year (20% per year) smoothing method that reflects differences between expected market asset return and actual market return.

Actuarial Assumptions

Investment Rate of Return:	8.00%
Projected Salary Increases:	3.75%
Cost of Living Adjustments:	3.00% of first \$13,000 of retirement income