

**TOWN OF NAHANT, MASSACHUSETTS**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



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# *Independent Auditors' Report*



*Certified Public Accountants*

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**Independent Auditors' Report**

To the Honorable Board of Selectmen  
Town of Nahant, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nahant, Massachusetts, as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Nahant, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Nahant, Massachusetts, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2007 on our consideration of the Town of Nahant, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, located on pages 4 through 13 and 51 through 54, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Handwritten signature in cursive script that reads "Sullivan, T. & Company, LLC".

August 29, 2007

# *Management's Discussion and Analysis*

As management of the Town of Nahant, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2007.

### *Financial Highlights*

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$19,584,272 (net assets). Of this amount, \$1,537,290 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$1,043,065.
- As of the close of the fiscal year, the Town's governmental funds reported a combined ending fund balance of \$155,638, an increase of \$2,637,577 in comparison with the prior year. \$2,134,359 represents unreserved fund balance of the general fund, special revenue fund and permanent fund. The capital projects fund deficit totaling \$2,127,528 will be funded through the issuance of long-term debt, state grants and available funds in future fiscal years.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$560,211, or 6.3 percent of total general fund expenditures.
- The Town's total bonded debt increased by \$6,396,466 during the fiscal year; \$6,896,000 of new debt was issued for school and other remodeling, an ambulance, roads and sidewalks, equipment, computers and sewer infrastructure projects.

### *Overview of the Basic Financial Statements*

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

This report also contains other supplementary information in addition to the basic financial statements.

#### Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the Town's non-fiduciary assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The **statement of activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

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

The government-wide financial statements can be found on pages 15-17 of this report.

### Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 17 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, stabilization (special revenue), school construction (capital projects), community preservation (special revenue), and coast guard houses (capital projects) funds, each of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

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

### **Proprietary funds**

The Town maintains one type of proprietary fund.

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

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

**Fiduciary funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption "agency funds".

The basic fiduciary fund financial statement can be found on page 27 of this report.

**Notes to the basic financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-50 of this report.

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the Town's budget comparison for the general fund. Such information can be located on pages 51-54 of this report.

***Government-Wide Financial Analysis***

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

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$19,584,272 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Assets</b>						
Current assets.....	\$ 2,964,485	\$ 5,062,352	\$ 435,551	\$ 911,854	\$ 3,400,036	\$ 5,974,206
Noncurrent assets (excluding capital assets).....	96,555	85,113	-	-	96,555	85,113
Capital assets (net).....	<u>21,110,038</u>	<u>16,328,369</u>	<u>6,891,189</u>	<u>6,392,210</u>	<u>28,001,227</u>	<u>22,720,579</u>
Total assets.....	<u>24,171,078</u>	<u>21,475,834</u>	<u>7,326,740</u>	<u>7,304,064</u>	<u>31,497,818</u>	<u>28,779,898</u>
<b>Liabilities</b>						
Current liabilities (excluding debt).....	540,658	1,343,530	210,788	14,787	751,446	1,358,317
Noncurrent liabilities (excluding debt).....	284,000	245,000	10,800	13,000	294,800	258,000
Current debt.....	2,699,000	6,063,050	386,534	598,024	3,085,534	6,661,074
Noncurrent debt.....	<u>5,935,000</u>	<u>210,000</u>	<u>1,846,766</u>	<u>1,751,300</u>	<u>7,781,766</u>	<u>1,961,300</u>
Total liabilities.....	<u>9,458,658</u>	<u>7,861,580</u>	<u>2,454,888</u>	<u>2,377,111</u>	<u>11,913,546</u>	<u>10,238,691</u>
<b>Net Assets</b>						
Invested in capital assets (net of related debt).....	12,588,859	10,541,369	4,657,889	4,042,886	17,246,748	14,584,255
Restricted.....	800,234	461,386	-	-	800,234	461,386
Unrestricted.....	<u>1,323,327</u>	<u>2,611,499</u>	<u>213,963</u>	<u>884,067</u>	<u>1,537,290</u>	<u>3,495,566</u>
Total net assets.....	<u>\$ 14,712,420</u>	<u>\$ 13,614,254</u>	<u>\$ 4,871,852</u>	<u>\$ 4,926,953</u>	<u>\$ 19,584,272</u>	<u>\$ 18,541,207</u>

The largest portion of the Town's net assets (88.1%) reflects its investment in capital assets (e.g., land, works of art, land improvements, buildings and improvements, machinery and equipment, library books, vehicles and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (4.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (7.8% or \$1,537,290) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$1,323,327 may be used to support governmental activities and \$213,963 may be used to support business-type activities.

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

Changes in Net Assets

For the fiscal year ended June 30, 2007, the Town's total net assets increased by \$1,043,065, compared to an increase of \$2,417,550 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for services.....	\$ 1,184,161	\$ 1,200,030	\$ 1,706,847	\$ 1,752,066	\$ 2,891,008	\$ 2,952,096
Operating grants and contributions.....	340,218	392,535	-	-	340,218	392,535
Capital grants and contributions.....	839,609	1,858,766	-	-	839,609	1,858,766
<i>General Revenues:</i>						
Real estate, personal property taxes and tax liens.....	5,954,270	5,727,608	-	-	5,954,270	5,727,608
Motor vehicle and other excise taxes.....	475,327	522,946	-	-	475,327	522,946
Penalties and interest on taxes.....	23,441	21,623	-	-	23,441	21,623
Community preservation surcharges.....	142,493	136,344	-	-	142,493	136,344
Grants and contributions not restricted to specific programs.....	1,398,391	1,265,916	-	-	1,398,391	1,265,916
Unrestricted investment income.....	114,776	90,125	-	-	114,776	90,125
<b>Total revenues.....</b>	<b>10,472,686</b>	<b>11,215,893</b>	<b>1,706,847</b>	<b>1,752,066</b>	<b>12,179,533</b>	<b>12,967,959</b>
<b>Expenses</b>						
General government.....	1,098,430	1,085,119	-	-	1,098,430	1,085,119
Public safety.....	2,426,537	2,285,206	-	-	2,426,537	2,285,206
Education.....	4,389,542	4,319,761	-	-	4,389,542	4,319,761
Public works.....	756,988	660,042	-	-	756,988	660,042
Trash disposal.....	350,468	319,023	-	-	350,468	319,023
Health and human services.....	122,981	114,737	-	-	122,981	114,737
Culture and recreation.....	370,273	318,727	-	-	370,273	318,727
Debt service - interest.....	411,286	172,171	-	-	411,286	172,171
Water/Sewer.....	-	-	1,209,963	1,275,623	1,209,963	1,275,623
<b>Total expenses.....</b>	<b>9,926,505</b>	<b>9,274,786</b>	<b>1,209,963</b>	<b>1,275,623</b>	<b>11,136,468</b>	<b>10,550,409</b>
Change in net assets before transfers.....	546,181	1,941,107	496,884	476,443	1,043,065	2,417,550
Transfers, net.....	551,985	86,875	(551,985)	(86,875)	-	-
Change in net assets.....	1,098,166	2,027,982	(55,101)	389,568	1,043,065	2,417,550
Net assets - beginning of year.....	13,614,254	11,586,272	4,926,953	4,537,385	18,541,207	16,123,657
Net assets - end of year.....	\$ 14,712,420	\$ 13,614,254	\$ 4,871,852	\$ 4,926,953	\$ 19,584,272	\$ 18,541,207

Governmental activities increased the Town's net assets by \$1,098,166. In the prior year, governmental activities increased the Town's net assets by \$2,027,982. The key element of this change is a decrease in reimbursements from the Massachusetts School Building Authority of approximately \$1,179,000.

Business-type activities decreased the Town's net assets by \$55,101. In the prior year, business-type activities increased the Town's net assets by \$389,568. The key element of this change is a transfer (\$462,540) from the water/sewer enterprise fund to the general fund for net assets accumulated from fiscal years 2004 through 2006 when the water/sewer activity was reported as an enterprise fund for financial reporting purposes only (internally the activity was accounted for in the general fund). Beginning in fiscal year 2007, the Water/Sewer enterprise fund is a legally adopted enterprise fund.