

TOWN OF NAHANT, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TOWN OF NAHANT, MASSACHUSETTS
INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS

| | Page |
|--|------|
| Independent Auditors' Report..... | 1 |
| Management's Discussion and Analysis..... | 4 |
| Basic Financial Statements..... | 14 |
| Statement of net assets | 15 |
| Statement of activities | 16 |
| Governmental funds – balance sheet | 18 |
| Governmental funds – statement of revenues, expenditures and changes in fund balances | 20 |
| Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets | 22 |
| Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities..... | 23 |
| Proprietary fund – statement of fund net assets | 24 |
| Proprietary fund – statement of revenues, expenses and changes in fund net assets | 25 |
| Proprietary fund – statement of cash flows | 26 |
| Fiduciary fund – statement of fiduciary net assets | 27 |
| Notes to basic financial statements | 28 |
| Required Supplementary Information | 51 |
| General fund – schedule of revenues, expenditures and changes in fund balance – budget and actual | 52 |
| Notes to required supplementary information | 54 |

This page left intentionally blank.

Independent Auditors' Report



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

Corporate Place I, Suite 204 • 99 South Bedford Street

Burlington, Massachusetts 01803

P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

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. J. & 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> |
| Assets | | | | | | |
| 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> |
| Liabilities | | | | | | |
| 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> |
| Net Assets | | | | | | |
| 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 |
| Revenues | | | | | | |
| <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 |
| Total revenues..... | 10,472,686 | 11,215,893 | 1,706,847 | 1,752,066 | 12,179,533 | 12,967,959 |
| Expenses | | | | | | |
| 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 |
| Total expenses..... | 9,926,505 | 9,274,786 | 1,209,963 | 1,275,623 | 11,136,468 | 10,550,409 |
| 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.

Fund Financial Statement Analysis

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the governmental funds reported a combined ending fund balance totaling \$155,638, an increase of \$2,637,577 in comparison with the prior year. \$1,623,076 represents undesignated fund balance of the general fund, special revenue fund and permanent fund. The capital projects fund deficit (including the school construction and coast guard houses major funds) totaling \$2,127,528 will be funded through the issuance of long-term debt, state grants and available funds in future fiscal years. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period (\$29,501)
- Perpetual permanent funds (\$25,150)
- Other specific purposes (\$94,156)
- Fund a portion of the fiscal year 2008 operating budget (\$511,283)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$560,211, while total fund balance was \$1,100,995. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Undesignated fund balance represents 6.3% of total general fund expenditures, while total fund balance represents 12.4% of that same amount.

The balance of the Town's general fund increased \$350,967 during fiscal year 2007. Although the Town's net change in fund balance on a budgetary basis (excluding encumbrances and continuing appropriations) was a decrease of approximately \$117,000, the general fund received an unbudgeted transfer from the water/sewer enterprise fund in the amount of \$462,540 for fund balances 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).

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

The fund balance of the stabilization fund (special revenue) increased by \$54,345 during the current fiscal year. This is attributable to transfers from the general fund and investment income.

The fund balance of the school construction fund (capital projects) increased by \$1,539,931 during the current fiscal year. The fund recognized \$426,063 in intergovernmental revenues and \$5,693,580 in proceeds of bonds and notes. Expenditures of \$4,579,712 were incurred during the fiscal year.

The fund balance of the community preservation fund (special revenue) increased by \$369,528 during the current fiscal year. The fund recognized \$142,741 in surcharges, \$137,073 in intergovernmental revenues, \$21,349 of investment income and \$450,000 in proceeds of bonds and notes. Expenditures of \$381,635 were incurred during the fiscal year.

The fund balance of the coast guard houses fund (capital projects) decreased by \$24,940 during the current fiscal year. This is attributable to expenditures that will be funded in future fiscal years through the issuance of long-term debt and available funds.

Proprietary fund

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

Unrestricted net assets of the water/sewer enterprise fund at the end of the year amounted to \$213,963. The water/sewer fund had a decrease in net assets for the year of \$55,101. 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 (including prior year encumbrances and continuing appropriations) of \$8,753,882 was increased by \$100,085 (1.1%) during the fiscal year. The following table summarizes the increase:

| <u>Purpose of Increase</u> | <u>Amount</u> | <u>Funding Source</u> |
|-------------------------------------|-------------------|---------------------------|
| Transfer to stabilization fund..... | \$ 53,500 | Undesignated fund balance |
| Debt service..... | 33,500 | Undesignated fund balance |
| Public works..... | 10,000 | Overlay surplus |
| Reserve fund..... | 1,900 | Overlay surplus |
| Prior year bills..... | <u>1,185</u> | Overlay surplus |
| Total increase..... | <u>\$ 100,085</u> | |

During the year, revenues and other financing sources exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgetary estimates, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$354,000.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$28,001,227 (net of accumulated depreciation). This investment in capital assets includes land, works of art, land improvements, buildings and improvements, machinery and equipment, library books, vehicles and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled 23.2% (a 21.0% increase for governmental activities and a 2.2% increase for business-type activities).

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

- Johnson School construction (\$4,580,000)
- Road and sidewalk infrastructure improvements (\$238,000)
- Nahant Life Saving Station renovations (\$145,000)
- Continued upgrades of the water and sewer infrastructure (\$688,000)

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

| | <i>Governmental Activities</i> | | <i>Business-Type Activities</i> | | <i>Total</i> | |
|---------------------------------|--------------------------------|---------------|---------------------------------|--------------|---------------|---------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Land..... | \$ 7,536,086 | \$ 7,536,086 | \$ - | \$ - | \$ 7,536,086 | \$ 7,536,086 |
| Works of art..... | 107,500 | 107,500 | - | - | 107,500 | 107,500 |
| Land improvements..... | 405,207 | 315,829 | - | - | 405,207 | 315,829 |
| Buildings and improvements..... | 10,447,151 | 5,841,762 | - | - | 10,447,151 | 5,841,762 |
| Machinery and equipment..... | 774,092 | 759,552 | - | - | 774,092 | 759,552 |
| Library books..... | 158,872 | 154,007 | - | - | 158,872 | 154,007 |
| Vehicles..... | 451,581 | 519,744 | - | - | 451,581 | 519,744 |
| Infrastructure..... | 1,229,549 | 1,093,889 | 6,891,189 | 6,392,210 | 8,120,738 | 7,486,099 |
| Total capital assets..... | \$ 21,110,038 | \$ 16,328,369 | \$ 6,891,189 | \$ 6,392,210 | \$ 28,001,227 | \$ 22,720,579 |

Additional information on the Town's capital assets can be found in Note 5 on pages 41-42 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$8,767,300, 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> | |
|---|--------------------------------|------------|---------------------------------|--------------|--------------|--------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| General obligation bonds..... | \$ 5,994,000 | \$ 45,000 | \$ 1,698,090 | \$ 1,470,400 | \$ 7,692,090 | \$ 1,515,400 |
| Federally taxable general obligation bonds..... | 180,000 | 240,000 | - | - | 180,000 | 240,000 |
| State house notes..... | 360,000 | - | - | - | 360,000 | - |
| MWRA notes..... | - | - | 535,210 | 615,434 | 535,210 | 615,434 |
| Total bonds and notes..... | \$ 6,534,000 | \$ 285,000 | \$ 2,233,300 | \$ 2,085,834 | \$ 8,767,300 | \$ 2,370,834 |

The Town's total bonded debt increased by \$6,396,466 (269.8%) during the current 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.

The Town has an Aaa rating from Moody's.

State statutes limit the amount of general obligation debt the Town may issue to 5% of its total assessed valuation. The current debt limit is \$42,290,713.

Additional information on the Town's long-term debt can be found in Note 8 on pages 44-48 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the fiscal year 2008 general fund operating budget was influenced by three major factors: employee health insurance costs, contractual salary increases and limitations on the property tax levy imposed by Proposition 2 ½.

Budgeted employee health insurance costs increased by 11% from \$585,000 to \$650,036. As a percentage of the Town's total budget, health insurance costs now consume 6.7% of the Town's operating budget.

Approximately 90% of school employees and 75% of municipal employees are covered by collective bargaining agreements. In fiscal year 2008, negotiated salary increases ranged from 3.0% to 4.5%.

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 \$166,935 (2.8%).

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, 334 Nahant Road, Nahant, Massachusetts 01908.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2007

| ASSETS | Primary Government | | |
|--|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 1,825,325 | \$ 19,280 | \$ 1,844,605 |
| Restricted cash and cash equivalents..... | 767,451 | 108,173 | 875,624 |
| Receivables, net of allowance for uncollectible amounts: | | | |
| Real estate and personal property taxes..... | 79,501 | - | 79,501 |
| Tax and utility liens..... | 67,362 | 4,774 | 72,136 |
| Motor vehicle and other excise taxes..... | 70,078 | - | 70,078 |
| Community preservation surcharges..... | 1,409 | - | 1,409 |
| Water..... | - | 162,405 | 162,405 |
| Sewer..... | - | 140,919 | 140,919 |
| Trash..... | 3,846 | - | 3,846 |
| Parking violations..... | 17,773 | - | 17,773 |
| Departmental and other..... | 18,919 | - | 18,919 |
| Intergovernmental..... | 112,821 | - | 112,821 |
| Total current assets..... | 2,964,485 | 435,551 | 3,400,036 |
| Noncurrent assets: | | | |
| Receivables, net of allowance for uncollectible amounts: | | | |
| Real estate tax deferrals..... | 96,555 | - | 96,555 |
| Capital assets not being depreciated..... | 7,643,586 | - | 7,643,586 |
| Capital assets, net of accumulated depreciation..... | 13,466,452 | 6,891,189 | 20,357,641 |
| Total noncurrent assets..... | 21,206,593 | 6,891,189 | 28,097,782 |
| Total assets..... | 24,171,078 | 7,326,740 | 31,497,818 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Warrants payable..... | 176,877 | 203,871 | 380,748 |
| Accrued payroll..... | 71,710 | 5,717 | 77,427 |
| Other liabilities..... | 22,041 | - | 22,041 |
| Accrued interest..... | 238,030 | - | 238,030 |
| Compensated absences..... | 32,000 | 1,200 | 33,200 |
| Short-term notes payable..... | 2,100,000 | - | 2,100,000 |
| Long-term bonds and notes payable..... | 599,000 | 386,534 | 985,534 |
| Total current liabilities..... | 3,239,658 | 597,322 | 3,836,980 |
| Noncurrent liabilities: | | | |
| Compensated absences..... | 284,000 | 10,800 | 294,800 |
| Long-term bonds and notes payable..... | 5,935,000 | 1,846,766 | 7,781,766 |
| Total noncurrent liabilities..... | 6,219,000 | 1,857,566 | 8,076,566 |
| Total liabilities..... | 9,458,658 | 2,454,888 | 11,913,546 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt..... | 12,588,859 | 4,657,889 | 17,246,748 |
| Restricted for: | | | |
| Community preservation..... | 618,894 | - | 618,894 |
| Permanent funds: | | | |
| Expendable..... | 62,034 | - | 62,034 |
| Nonexpendable..... | 25,150 | - | 25,150 |
| Other specific purposes..... | 94,156 | - | 94,156 |
| Unrestricted..... | 1,323,327 | 213,963 | 1,537,290 |
| Total net assets..... | \$ 14,712,420 | \$ 4,871,852 | \$ 19,584,272 |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| 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..... | \$ 1,098,430 | \$ 505,668 | \$ 47,646 | \$ 137,073 | \$ (408,043) |
| Public safety..... | 2,426,537 | 58,245 | 88,211 | - | (2,280,081) |
| Education..... | 4,389,542 | 106,957 | 131,149 | 538,884 | (3,612,552) |
| Public works..... | 756,988 | 131,513 | 29,788 | 163,652 | (432,035) |
| Trash disposal..... | 350,468 | 342,041 | - | - | (8,427) |
| Health and human services..... | 122,981 | 807 | - | - | (122,174) |
| Culture and recreation..... | 370,273 | 38,930 | 26,793 | - | (304,550) |
| Debt service - interest..... | 411,286 | - | 16,631 | - | (394,655) |
| Total governmental activities..... | <u>9,926,505</u> | <u>1,184,161</u> | <u>340,218</u> | <u>839,609</u> | <u>(7,562,517)</u> |
| Business-type activities: | | | | | |
| Water/Sewer..... | <u>1,209,963</u> | <u>1,706,847</u> | <u>-</u> | <u>-</u> | <u>496,884</u> |
| Total primary government..... | <u>\$ 11,136,468</u> | <u>\$ 2,891,008</u> | <u>\$ 340,218</u> | <u>\$ 839,609</u> | <u>\$ (7,065,633)</u> |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| | Primary Government | | |
|--|----------------------------|-----------------------------|------------------|
| | Governmental Activities | Business-type Activities | Total |
| Changes in net assets: | | | |
| Net (expense)/revenue (from previous page)..... | \$ (7,562,517) | \$ 496,884 | \$ (7,065,633) |
| <i>General revenues:</i> | | | |
| Real estate, personal property taxes and tax liens..... | 5,954,270 | - | 5,954,270 |
| Motor vehicle and other excise taxes..... | 475,327 | - | 475,327 |
| Penalties and interest on taxes..... | 23,441 | - | 23,441 |
| Community preservation surcharges..... | 142,493 | - | 142,493 |
| Grants and contributions not restricted to specific programs..... | 1,398,391 | - | 1,398,391 |
| Unrestricted investment income..... | 114,776 | - | 114,776 |
| <i>Transfers, net</i> | 551,985 | (551,985) | - |
| Total general revenues and transfers..... | 8,660,683 | (551,985) | 8,108,698 |
| Change in net assets..... | 1,098,166 | (55,101) | 1,043,065 |
| Net assets - beginning of year..... | 13,614,254 | 4,926,953 | 18,541,207 |
| Net assets - end of year..... | \$ 14,712,420 | \$ 4,871,852 | \$ 19,584,272 |

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2007

| | General | Stabilization | School Construction |
|--|---------------------|------------------|------------------------|
| ASSETS | | | |
| Cash and cash equivalents..... | \$ 1,327,827 | \$ 74,350 | \$ - |
| Receivables, net of allowance for uncollectible amounts: | | | |
| Real estate and personal property taxes..... | 79,501 | - | - |
| Real estate tax deferrals..... | 96,555 | - | - |
| Tax and trash liens..... | 66,545 | - | - |
| Motor vehicle and other excise taxes..... | 70,078 | - | - |
| Community preservation surcharges..... | - | - | - |
| Trash..... | 3,846 | - | - |
| Parking violations..... | 17,773 | - | - |
| Departmental and other..... | 18,919 | - | - |
| Intergovernmental..... | - | - | 112,821 |
| Due from other funds..... | 74,221 | - | - |
| Restricted assets: | | | |
| Cash and cash equivalents..... | - | - | - |
| TOTAL ASSETS..... | \$ 1,755,265 | \$ 74,350 | \$ 112,821 |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES: | | | |
| Warrants payable..... | \$ 144,518 | \$ - | \$ - |
| Accrued payroll..... | 67,984 | - | - |
| Other liabilities..... | 22,041 | - | - |
| Deferred revenue..... | 353,217 | - | 112,821 |
| Due to other funds..... | - | - | 74,221 |
| Accrued short-term interest..... | 66,510 | - | - |
| Short-term notes payable..... | - | - | - |
| TOTAL LIABILITIES..... | 654,270 | - | 187,042 |
| FUND BALANCES: | | | |
| Reserved for: | | | |
| Encumbrances and continuing appropriations..... | 29,501 | - | - |
| Perpetual permanent funds..... | - | - | - |
| Other specific purposes..... | - | - | - |
| Unreserved: | | | |
| Designated for subsequent year's expenditures..... | 511,283 | - | - |
| Undesignated, reported in: | | | |
| General fund..... | 560,211 | - | - |
| Special revenue funds..... | - | 74,350 | - |
| Capital projects funds..... | - | - | (74,221) |
| Permanent funds..... | - | - | - |
| TOTAL FUND BALANCES..... | 1,100,995 | 74,350 | (74,221) |
| TOTAL LIABILITIES AND FUND BALANCES..... | \$ 1,755,265 | \$ 74,350 | \$ 112,821 |

See notes to basic financial statements.

| Community Preservation | Coast Guard Houses | Nonmajor Governmental Funds | Total Governmental Funds |
|---------------------------|-----------------------|-----------------------------------|--------------------------------|
| \$ - | \$ - | \$ 423,148 | \$ 1,825,325 |
| - | - | - | 79,501 |
| - | - | - | 96,555 |
| 817 | - | - | 67,362 |
| - | - | - | 70,078 |
| 1,409 | - | - | 1,409 |
| - | - | - | 3,846 |
| - | - | - | 17,773 |
| - | - | - | 18,919 |
| - | - | - | 112,821 |
| - | - | - | 74,221 |
| <u>631,926</u> | <u>27,421</u> | <u>108,104</u> | <u>767,451</u> |
| <u>\$ 634,152</u> | <u>\$ 27,421</u> | <u>\$ 531,252</u> | <u>\$ 3,135,261</u> |
| | | | |
| \$ 15,258 | \$ - | \$ 17,101 | \$ 176,877 |
| - | - | 3,726 | 71,710 |
| - | - | - | 22,041 |
| 2,226 | - | - | 468,264 |
| - | - | - | 74,221 |
| - | - | - | 66,510 |
| - | 2,100,000 | - | 2,100,000 |
| <u>17,484</u> | <u>2,100,000</u> | <u>20,827</u> | <u>2,979,623</u> |
| | | | |
| - | - | - | 29,501 |
| - | - | 25,150 | 25,150 |
| - | - | 94,156 | 94,156 |
| - | - | - | 511,283 |
| - | - | - | 560,211 |
| 616,668 | - | 309,813 | 1,000,831 |
| - | (2,072,579) | 19,272 | (2,127,528) |
| <u>-</u> | <u>-</u> | <u>62,034</u> | <u>62,034</u> |
| <u>616,668</u> | <u>(2,072,579)</u> | <u>510,425</u> | <u>155,638</u> |
| <u>\$ 634,152</u> | <u>\$ 27,421</u> | <u>\$ 531,252</u> | <u>\$ 3,135,261</u> |

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

| | General | Stabilization | School Construction |
|---|---------------------|------------------|------------------------|
| REVENUES | | | |
| Real estate and personal property taxes..... | \$ 5,896,155 | \$ - | \$ - |
| Motor vehicle and other excise taxes..... | 480,918 | - | - |
| Tax liens..... | 19,085 | - | - |
| Community preservation surcharges..... | - | - | - |
| Charges for services..... | 4,175 | - | - |
| Trash disposal..... | 345,406 | - | - |
| Intergovernmental | 1,397,116 | - | 426,063 |
| Penalties and interest on taxes..... | 23,441 | - | - |
| Licenses, permits and fees..... | 481,742 | - | - |
| Fines and forfeitures..... | 48,333 | - | - |
| Departmental..... | 68,611 | - | - |
| Contributions..... | - | - | - |
| Investment income..... | 114,776 | 845 | - |
| | <u>8,879,758</u> | <u>845</u> | <u>426,063</u> |
| TOTAL REVENUES..... | | | |
| EXPENDITURES | | | |
| Current: | | | |
| General government..... | 739,031 | - | - |
| Public safety..... | 1,765,570 | - | - |
| Education..... | 3,250,068 | - | 4,579,712 |
| Public works..... | 457,184 | - | - |
| Trash disposal..... | 350,468 | - | - |
| Health and human services..... | 36,284 | - | - |
| Culture and recreation..... | 225,040 | - | - |
| Pension benefits..... | 827,992 | - | - |
| Employee benefits..... | 623,952 | - | - |
| Property and liability insurance..... | 176,367 | - | - |
| State and county charges..... | 92,055 | - | - |
| Debt service: | | | |
| Principal..... | 75,000 | - | - |
| Interest..... | 239,766 | - | - |
| | <u>8,858,777</u> | <u>-</u> | <u>4,579,712</u> |
| TOTAL EXPENDITURES..... | | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | 20,981 | 845 | (4,153,649) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in..... | 614,780 | 53,500 | - |
| Proceeds of bonds and notes..... | - | - | 5,693,580 |
| Premium from issuance of bonds and notes..... | 16,631 | - | - |
| Transfers out..... | (301,425) | - | - |
| | <u>329,986</u> | <u>53,500</u> | <u>5,693,580</u> |
| TOTAL OTHER FINANCING SOURCES (USES)..... | | | |
| NET CHANGE IN FUND BALANCES..... | 350,967 | 54,345 | 1,539,931 |
| FUND BALANCES AT BEGINNING OF YEAR..... | 750,028 | 20,005 | (1,614,152) |
| FUND BALANCES AT END OF YEAR..... | <u>\$ 1,100,995</u> | <u>\$ 74,350</u> | <u>\$ (74,221)</u> |

See notes to basic financial statements.